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REPORT OF THE TRADE AND DEVELOPMENT BOARD ON ITS FORTY-FIFTH SESSION

held at the Palais des Nations, Geneva,
from 12 to 23 October 1998

Volume II

Summary of proceedings

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Preface

This volume (volume II) of the report of the Trade and Development Board on its forty-fifth session contains the summaries of statements made during the session.

All other matters relating to the forty-fifth session of the Board are to be found in volume I of the report, entitled Report to the United Nations General Assembly*. These include action taken by the Board, procedural and institutional matters, and diverse annexes.

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* See TD/B/45/13 (Vol. I).

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INTRODUCTION

Opening statements

1. The outgoing **President of the Trade and Development Board at its forty-fourth session** said that his tenure as President of the Board had been an enriching experience which had heightened his appreciation of UNCTAD as an institution and of its mission. Since the forty-fourth session, the organization had had an active and productive year, but what was remarkable was the speed with which the international economic and social scene had changed. Globalization had entered a critical phase, and fears of a global economic implosion were widespread. Globalization was an inevitable process which provided substantial potential opportunities for all, but the benefits remained unevenly distributed among and within countries. Protectionism was not a valid response, and the fundamental issue was managing globalization. There was a strong need for a common vision of universal growth and development and for a rethinking of development in order to integrate essential social, ethical and cultural values. There could be no sustainable growth without democracy and without a sharing of benefits by all countries and individuals. Global problems required global responses, but since there was not much time for reshaping institutions, the policy stance of each institution became crucial. UNCTAD must make its own contribution, and it deserved the full support of the international community in order to be effective.

2. The newly elected **President of the Trade and Development Board at its forty-fifth session** said that the Board's session was taking place at a time when the world had to cope with the effects of a global financial crisis and its systemic implications. It had surprised everyone to see the speed with which the East Asian financial turmoil had spread to other parts of the world. Unfortunately, the prophecy of the UNCTAD secretariat in 1990 about the inherent destabilizing effects of the globalization of finance and the vulnerability of all countries to financial crisis had been vindicated. There was now a fundamental questioning of the value of free markets and the benefits of trade liberalization. However, turning away from globalization was no longer a realistic option in view of the growing interdependence of the world economy.

3. Never before had international institutions been confronted with concurrent situations of economic panic and near social collapse. There was an urgent need to deal with the contagious effects of a global financial crisis that would have far-reaching effects on commodity prices, debt restructuring and the need to increase the supply capacity of developing countries. UNCTAD had the role and the capacity to serve as an appropriate multilateral forum to arrive at a consensus on what could be done and set the direction for the future. This was a challenging task that demanded delegations' full attention from now until UNCTAD X.

4. The **Secretary-General of UNCTAD** said that the world's press was now full of references to the difficulties of the world economy. He had just recently read, for example, that the global economy was increasingly hostage to the world of finance; that within the space of three days the dollar had depreciated by little short of a fifth against the yen and that such violent swings had probably not been seen since the break-up of the Bretton Woods semi-fixed exchange rate system in the early 1970s; that the net loss of wealth in all US financial

products since the equity market peak in July amounted to some US$1,500 billion; that in dollar terms, all but one of the eight leading European stock markets had tumbled by more than 20 per cent over the past three months; that the immediate threat to Europe's share markets lay in the economic slowdown; that Western central bankers were becoming increasingly concerned about how their own financial institutions were coping; that currency turmoil had now come to the two largest economies in the world; that a disappearance of liquidity could mean a massive global credit crunch, with funds for even the most creditworthy of borrowers cut off; and that any illusion of an orderly exit from the global financial crisis now lay in tatters. The Chairman of the United States Federal Reserve, Alan Greenspan, had just said that what was being seen was a broad area of uncertainty or fear, and markets could not function in an efficient fashion in that environment. Such quotes, from impeccable mainstream economists, showed clearly that the mainstream had joined up with UNCTAD.

5. Just 18 months previously, the same economists had been pointing to a rosy future, glowing prospects, fast growth, low inflation, falling budget deficits, and expanding international trade. At that time they had chosen to play down the potential for damage as compared to the huge potential for good they had expected from a more globalized and liberalized economy. The first lesson to be learned from the recent transformation in the outlook for the world economy was therefore that there were no comparative advantages in the field of ideas, and that was why the world needed diversity of approaches and perspectives in analysis and research on the world economy, keeping in mind the need to present as comprehensive and balanced a result as possible. To be at the mercy of just one provider of thought amounted to acceptance of a sort of monopoly of truth, a dominant position in the market of knowledge, and such a situation should be avoided. UNCTAD was determined to do its part, continuing to provide sound and independent analysis, in fulfilment of its role of integrating, within the United Nations system, the treatment of the various components of economic developments.

6. Continuity was important in the search for an independent approach to problems posed by the international economy in order to achieve balance and responsibility in providing the necessary advice for countries in need of advice. What was needed above all was to go beyond the old dichotomies of the past. The international economic community had long been divided by sometimes extreme and exclusive views, for example on the state and the market, growth and price stability, and labour market flexibility and security. The main lesson of what was happening now was about another dichotomy, namely the discussion between the external environment and national policies, and it was now clear that a favourable external environment was absolutely indispensable for everybody, even the most successful economy in the world. Of course, national policies had a key role to play, but they were not sufficient. A good case in point was Chile, which had been growing for 13 years and had all the fundamentals in place but had become a victim of its own success, since its exports had been hit by the crisis in Asia. As a result, Chile was struggling to avoid ending the year with a current account deficit in excess of 7.5 per cent of GDP. Thus, though there could be no turning back from integration into the world economy, the crucial importance of the external environment could not be ignored.

7. The present crisis would perhaps have the positive effect of catalyzing the necessary action to make the existing international, economic, financial and monetary system a better one. In that sense, it could turn out to be an "optimal crisis". He did not believe that the world was on the eve of the final crisis of capitalism or of globalization, nor that a global recession was inevitable.

The United States and Europe had very sound fundamentals, and in terms of psychological factors there were also encouraging signs. President Clinton was making a determined effort to make the world aware of the problem and the G.7 had started to send some hopeful signs. Interest rates were being cut, and there were signs that finally countries no longer saw inflation as the biggest threat. Deflation must now be the centre of attention, and there was room for hope.

8. UNCTAD had always been committed to the goal of integrating developing countries into the world economy. The current crisis should encourage a more proactive and constructive attitude, and countries should pursue the goal of integration and liberalization, but by following a safe and predictable path. Max Weber had made a distinction between the moral of intention and the moral of responsibility, and it was not enough to preach liberalization or globalization just because they might do good; policy-makers must also measure their responsibility and take into account the consequences of their policies. As UNCTAD X approached, he believed it possible to build a consensus on the basis of this search for balance and for a sound and reliable approach to development.

9. The **President** said that, as pointed out by Mr. George Soros, financial markets were inherently unstable, otherwise there would be no incentive to buy; the answer to the problem lay in sound fundamentals and strong institutions.

10. The spokesperson for the **Group of 77 and China** (Costa Rica) said that the forty-fifth session of the Board should be one of the most significant sessions in the history of the Conference, as it would address the issues facing a world in deep economic, financial and social crisis. UNCTAD's mandate placed it in a position that enabled it to respond to the growing challenges of a rapidly changing world traumatized by globalization. Unless intensive efforts were made to help developing countries, many ran the risk of being left far behind and of being further marginalized in the world economy. How could that be avoided when the global economy was characterized by financial turmoil, falling commodity prices and evaporating demand?

11. His Group was looking forward to an in-depth discussion which would make it possible to identify promising areas where consensus could be built on the appropriate responses to globalization, the current crisis, and the perennial problem of development. The *Trade and Development Report*, 1998 represented a fine example of the independence, integrity and intellectual capacity of the UNCTAD secretariat, and the Secretary-General of UNCTAD was to be congratulated for it. His Group would be more than willing to lead the efforts towards a consensus on a new institutional architecture and to fill the governance deficit in a globalized world economy.

12. His Group also wished to draw attention to the Non-Aligned Movement Declaration recently adopted in Durban and the Declaration of the Foreign Ministers of the Group of 77 adopted at the opening of the General Assembly. Both reflected the vision, aspirations and commitments of the Group. The Ministerial Declaration made recommendations on the challenges facing the Group of 77 and agreed on a number of measures. One of the most important conclusions was to continue to support and defend UNCTAD as an institution with a continuing mission on development and to give the institution maximum support in its development task. The Ministers of the Group of 77 had further agreed to hold a Summit on South-South cooperation in Havana, Cuba, in the first half of the year 2000. Finally, the Group of 77 warmly welcomed into its membership Turkmenistan, which had joined the Group in September 1998.

13. The representative of **Austria**, speaking on behalf of the **European Union**, said that he looked forward to developing the thinking on the new development paradigm being proposed by the Secretary-General of UNCTAD, with its emphasis on balance and a new policy mix. Of course, any creative new idea involved risks, and possible traps would have to be avoided.

14. The European Union appreciated the focus of the *Trade and Development Report*, 1998 on issues related to financial instability with regard to the East Asian crisis and African development. It shared many - though not all - of the observations made. As to the recent financial crisis, maintaining continuous growth in world trade by resisting any protectionist pressures was vital in overcoming the current turmoil. The volatility of world capital markets was an undesired side effect of the growing financial integration accompanying the liberalization of financial transactions. There was a need to address the negative effects of the volatility of international capital flows on the global trading system and the development prospects of developing countries.

15. The European Union was extremely concerned by the serious implications of the financial crisis for the living standards of broad segments of the population of countries affected, as well as by the possible spread of the crisis to other emerging regions such as Latin America, where the crisis was threatening otherwise generally sound economies. The discussions under the interdependence item therefore came at a timely moment.

16. The need for open market policies was widely accepted for promoting comparative advantage and the efficient use of resources. This held true for both developing and developed countries, and for both investment and trade. Liberalization of trade and investment regimes was essential for economic growth and development, since it facilitated access to international capital markets by attracting foreign direct investment and promoted efficiency and enhanced productivity, as well as transfer of technology. It had long been shown that technology flowed preferably to countries which had strong and effectively enforced intellectual property rights legislation. The efficiency gains associated with more open trade and investment regimes had contributed to a remarkable expansion of exports from the developing countries.

17. Growth in the developing countries had been stronger in recent years than in the developed countries, though distinctions must be drawn between different regions with respect to debt, financial flows, trade and investment. Despite the economic growth that some of them had recently experienced, LDCs continued to suffer from problems of vulnerability caused by external as well as internal factors, and their share of world trade remained worryingly low. Helping to integrate the developing economies, especially the LDCs, into the world trading system constituted a challenging task for all, and UNCTAD had a useful role to play. The nomination of a new Special Coordinator for LDCs was welcome in terms of revitalizing UNCTAD's activities in that respect.

18. Regarding African development, the chief aim of the European Union was to enable its African partners to take full ownership and leadership of their development efforts by way of better coordinated international support which would foster economic growth and their full integration into the multilateral trading system. The European Union shared the observation in the *Trade and Development Report*, 1998 that major reforms must still be undertaken by African Governments. It disagreed, however, with some other statements in the *Report*'s section on Africa, which appeared rather unbalanced.

19. Finally, the European Union placed considerable emphasis on the need to ensure complementarity and to avoid overlap between United Nations initiatives focused on Africa. The 1999 coordination segment of ECOSOC, entirely dedicated to issues relating to the development of Africa, corresponded to that general approach.

20. The representative of the **Russian Federation** said that UNCTAD's success in reforming its structure and creating a new intergovernmental machinery had not gone unnoticed, and its efforts to implement the decisions taken at UNCTAD IX should be pursued. UNCTAD's wide-ranging mandate remained valid, and all its activities must be based on the principle of universality, which meant that the concerns of all countries or groups of countries must be given due attention. UNCTAD must continue to serve as a forum for the discussion of new and emerging issues so as to allow their conflict-free assimilation into international trade disciplines. Its cooperation with other international organizations should be further enhanced on the basis of complementarity, comparative advantage and clearly defined mandates.

21. The ongoing financial crisis had once again shown the inability of the global financial system to react adequately. Much was now being said about creating an international system for predicting and preventing such crises, and his delegation shared the main conclusions of the *Trade and Development Report*, 1998 in that connection. UNCTAD should participate in work to suggest ways of improving the Bretton Woods institutions and on a possible system of early warning and prevention of speculative capital movements.

22. His country supported UNCTAD's work on the Programme of Action for the LDCs for the 1990s and its assistance for developing countries and countries in transition in their efforts to integrate into the world economy, to join WTO, to participate in multilateral trade negotiations, and to adjust to new WTO agreements. The publication of UNCTAD's flagship reports should be pursued.

23. The representative of the **United States of America**, speaking as focal point for JUSSCANNZ, said that, a year ago, few had anticipated that today the world would be facing perhaps its most serious financial crisis in half a century. The fact that the crisis had affected a large part of the developing world lent a special urgency to the Board's deliberations. As President Clinton had stated at the recent World Bank-IMF meetings, the gains of global economic exchange had been real and dramatic, but when nations half a world apart faced the same crisis at the same time, it was time for decisive action.

24. At the same time, Governments must hold fast to sound policies. No nation could avoid the necessity of an open, transparent, properly regulated financial system; an honest, effective tax system; and laws that protected investment. His Government was fully committed to the concerted international response to the crisis that was now developing. The United States was convinced that the world economy today needed more trade and investment, not less, and it would press forward to tear down barriers and liberalize trade. UNCTAD's Midrand mandate to assist developing countries to participate more effectively in the international trading system was of key importance in that respect.

25. At this time of crisis, the institutional reform process initiated at UNCTAD IX became even more crucial. The United States applauded the reform efforts instituted to date, but the process was not complete. His delegation remained concerned over several management issues, in particular UNCTAD's human

resource policies and the implementation of the Mid-Term Review's outcome. It was encouraging to hear that the position of Special Coordinator for Least Developed Countries would soon be filled, and it was hoped that this would result in a more vigorous and systematic implementation of the follow-up to the High-Level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development. It would also be vital to complete the recruitment of the Director of the Trade Division immediately.

26. The High-Level Mid-Term Review would be a forward-looking exercise, but problems in carrying out the Midrand mandate had been identified, and member States needed more information on how these problems were being addressed. African development was a key issue for his Government, which believed that more should be done to help countries with good economic reform records. At the same time, experience showed the futility of providing much development assistance to countries that were mismanaging their economies. The strategic objective of United States assistance programmes in Africa was to support African Governments which wanted to increase their openness to international trade and investment. USAID was in contact both with UNCTAD staff and with the WTO training department to consider possible joint development of certain workshops and events.

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27. At its 895th (opening) plenary meeting, on 12 October 1998, the Trade and Development Board paid tribute to Mr. Jean-Pascal Delamuraz, former President of the Swiss Confederation, who had actively contributed to the success of UNCTAD IX.

Chapter I

HIGH-LEVEL MID-TERM REVIEW

(Agenda item 3)

28. For its consideration of agenda item 3, the Board had before it the following documentation:

"High-level Mid-term Review" (TD/B/45/8);

"High-level Mid-term Review: Issues paper by the Secretary-General of UNCTAD" (TD/B/45/CRP.3).

29. The representative of **Morocco**, speaking in his capacity as **Chairman of the Mid-term Review process**, said that the Mid-term Review process, which had ended in July and whose purpose had been to review UNCTAD's work programmes, adjust priorities and ensure the best possible implementation of the mandate given by UNCTAD IX, and the earlier, related exercise which he had also chaired and which had led to the adoption of comprehensive guidelines for the efficiency and functioning of the UNCTAD intergovernmental machinery together reflected the commitment of the organization and that of the Secretary-General of UNCTAD to build on the reform process that had begun at UNCTAD IX. Also, they demonstrated that improving the way in which UNCTAD could deliver its message and implement its mandate was a continuous process.

30. This did not mean, however, that the machinery was perfect; it was necessary to continue to monitor and build on the guidelines and to make improvement of the machinery a normal feature of UNCTAD's methods of work. But it did mean that energies should now be concentrated on the substantive tasks facing UNCTAD in the field of trade and development. The review was one way of making sure that the expectations that were born in Midrand were fulfilled so that UNCTAD would remain, as the General Assembly had stated, the focal point within the United Nations system for the integrated treatment of development and interrelated issues in the areas of trade, finance, technology, investment and sustainable development.

31. Turning to the High-level Mid-term Review Meeting itself, he said that according to the Midrand document its purpose was "to build on the political commitment of member States to the process initiated at this Conference [UNCTAD IX] and ensure its implementation". That commitment was more relevant than ever since the economic environment had changed considerably, and this meant that UNCTAD had to be prepared to revisit its vision of the future and see what development paradigm was appropriate for responding to the challenges posed by globalization. UNCTAD was endowed with sufficient expertise, flexibility and vitality to respond effectively to this new challenge for development.

32. The **Secretary-General of UNCTAD** recalled his proposals set out in document TD/B/45/CRP.3 and said he was very glad that the review exercise followed immediately after the High-level Segment. The latter was a concrete expression of a new UNCTAD which was continuously renewing itself. In his view, there were four aspects which had made the meeting a success. First, the topic discussed was relevant. Second, the tone and content of the meeting had been characterized by balance, the avoidance of unidimensional, confrontational arguments, and a

search for a meeting of minds. Third, the meeting had demonstrated the correctness of insisting on integrating civil society into UNCTAD's work, with valuable insights and suggestions emanating from private sector and labour representatives. Fourth, the meeting had shown that UNCTAD was on the right road to improving integration within the United Nations system, specifically with the Second Committee of the General Assembly in New York, and with the regional commissions, which for the first time had all been represented at an UNCTAD meeting.

33. The representative of **South Africa**, speaking on behalf of the President of UNCTAD IX, reaffirmed his country's support for UNCTAD in its pursuit of a comprehensive and integrated approach to promote development in a rapidly changing global economy. The High-level Mid-term Review Meeting was part of the process initiated at Midrand, and it should aim at maintaining the political commitment to strengthen UNCTAD, as well as at setting in motion preparations for UNCTAD X.

34. Referring to the report on the Mid-term Review process (TD/B/45/8), which, he said, showed that UNCTAD was on the right track, he emphasized some of UNCTAD's outstanding achievements: its intellectual leadership in the international debate on development in the new global environment; its admirable record in making innovative recommendations that sought to deal with the key issues confronting the global community; its valuable analysis and research which had led to concrete proposals for promoting growth and development in Africa, particularly by dealing with the debt issue; the progress it had made in developing and implementing a comprehensive programme of action for least developed countries, particularly in the area of trade; and the increased involvement of civil society in its ongoing work.

35. UNCTAD had to continue to work towards improving the efficacy and efficiency of the intergovernmental machinery. Greater efforts would be needed to focus on the important work that remained to be done; and it was unfortunate that a combination of factors had delayed the reorganization and staffing of the secretariat.

36. Recent developments in the global economy had demonstrated that UNCTAD's comprehensive and integrated approach to understanding the dimensions of development had been vindicated. Any attempt to limit UNCTAD's mandate would diminish its ability to assist developing countries as they confronted complex global challenges on the eve of the new millennium. Development strategies needed to be comprehensive, balanced and sensitive to the socio-economic and political specificities of particular countries and regions. Furthermore, recent experience demonstrated the continued importance of strengthening UNCTAD's work on issues of finance and investment flows. Lastly, it was vital for UNCTAD to play a role in supporting developing countries in the renegotiation of the Lomé Convention and in preparing for new negotiations in the WTO.

37. The **Deputy Prime Minister of Thailand** emphasized three points in document TD/B/45/CRP.3. First, there was a need for a more comprehensive and integrated vision of development. Confrontation and polarization should be avoided and joint solutions sought. Second, there had been too much emphasis in the past on dichotomies, and he called instead for a more balanced approach in policy-making, whereby all issues that had a bearing on development efforts should be looked at objectively. Third, he called for a proactive stance, particularly in the field of international economic negotiations, where the ability of developing countries to participate needed to be improved.

38. He then proceeded to set out a number of points which appeared worthy of further study in the run-up to UNCTAD X. Global problems called for a global approach. A forum should be devised to address global issues more comprehensively, issues such as avoiding deflation through global demand management and expanding G-7 deliberations to include developing countries. UNCTAD should scrutinize globalization so as to help developing countries make the best use of the opportunities it offered them. The East Asian model of development was still a feasible model for successful development, and its basic features should not be ignored. Completely new paradigms should not be sought. Foreign direct investment (FDI) was sometimes looked upon with nationalistic feelings, but to avoid marginalization, combat the financial crisis and avoid the influx of short-term speculative money, there was no alternative but to tap into longer-term FDI. UNCTAD should help developing countries learn how to make the best use of FDI for development; and liberalization should not be stalled by the present crisis. There was a need for more concerted action among international organizations, including WTO and UNCTAD. UNCTAD should help build up the capacity of developing countries to negotiate and have their own agenda. With regard to marginalization, there was a need to separate feelings from rationality, and to engage in a concrete and impartial analysis of what contributed to the phenomenon of marginalization. Finally, the High-level Segment had shown that interaction between the public and private sectors could lead to important conclusions.

39. The spokesperson for the **Group of 77 and China** (Costa Rica) said that the report on the Mid-term Review exercise was a balanced document which had brought UNCTAD's work more into line with the Midrand mandate and would guide the organization up to the next Conference.

40. His Group wanted to see a stronger and more useful UNCTAD which could respond to the interests and needs of all developing countries, especially those with structurally weak and vulnerable economies, in particular the least developed countries. He shared the view of the Secretary-General of UNCTAD that the organization's work should focus on research and analysis and on an interaction between experts and government representatives. In this context, he expressed his Group's appreciation for the support shown by the other regional groups in making possible the agreement on financing the participation of developing countries' experts in UNCTAD meetings in 1999.

41. His Group would support any measure designed to strengthen UNCTAD's analytical capacity, especially in areas of vital importance for developing countries, such as interdependence, and the close interrelationship between financial and trade issues with a direct impact on development; the integration of developing countries into the global economy; and the development of a positive trade agenda.

42. Together with UNCTAD, developing countries wanted to be actively involved in the design of a new international financial architecture. In this regard, his Group encouraged UNCTAD to analyse, in close cooperation with the Bretton Woods institutions, current trends in world financial flows and to make recommendations on ways and means of pre-empting a systemic crisis, without however overlooking the development perspective and the need to protect the most vulnerable social categories. Furthermore, UNCTAD should recommend ways of improving the international community's existing capacity to foresee and prevent crises from recurring, particularly in order to avoid the impact they could have on developing countries.

43. The spokesperson for the **Latin American and Caribbean Group** (Argentina) said that he shared the vision of the Secretary-General with regard to making UNCTAD useful for all, especially the developing countries. To that end, it was necessary to reaffirm and strengthen UNCTAD's role in terms of intergovernmental deliberations and consensus-building, research and policy analysis, and technical cooperation and advice. His Group wished to see efforts concentrated on making UNCTAD's mandate and activities correspond better with the new opportunities and challenges arising from the international environment. He identified in particular the positive trade agenda; the interdependence of money, finance and trade and their impact on development; the implications for development of bilateral, regional and multilateral investment agreements; primary commodities; electronic commerce; and promoting the development of countries with structurally weak economies and that of the least developed countries. His Group attached particular importance to having appropriate access to UNCTAD's technical cooperation programmes.

44. Furthermore, his Group believed that the new development paradigm should be based on national strategies capable of exploiting the opportunities and overcoming the challenges presented by globalization and by the new financial architecture arising out of the current world crisis. Since the development of developing countries was being affected by the interdependence between money, finance and trade, UNCTAD should contribute to the design of the new international financial architecture from a development perspective.

45. UNCTAD's work and activities should be characterized by an independent approach such that its analytical work and the deliberations of experts and governmental representatives could lead to the formulation of policy options which could be of use in member States' decision-making process, as had been the case so far. For this reason, his Group greatly valued UNCTAD's analytical capacity and the contribution it made, by virtue of its independence and development orientation, to national policy-making.

46. The representative of **China** said that the points made by the Deputy Prime Minister of Thailand were an excellent contribution to the preparations for UNCTAD X. He deemed the Mid-term Review a success, with adjustments to UNCTAD's work having been made in the light of changes in the world economy, and said that his assessment of UNCTAD's work over the previous two years was a positive one. UNCTAD's three flagship reports enjoyed great prestige and were among the main resources for policy makers in developing countries. UNCTAD had provided good policy advice and helpful technical assistance in a number of areas and should continue to follow the guiding principles of UNCTAD IX. It should intensify its study of macroeconomic issues so as to provide timely advice to Governments. He said that UNCTAD X would take place at a critical moment and that China had great hopes for it. There was little time left before the Conference and preparatory work needed to begin immediately.

47. The representative of the **United States of America**, speaking also on behalf of **Australia**, **Canada** and **New Zealand**, said that UNCTAD had an important role to play in helping developing countries to meet the challenges ahead in trade and development. A wide variety of demands would be placed on UNCTAD in the coming years, and it was necessary to ensure that it had a clear focus on those areas where it had a comparative advantage. UNCTAD's work in assisting developing countries with identifying their interests in further multilateral trade negotiations was of particular importance, and the organization should carry out analytical background work to that end.

48. He expressed concern at the idea of expanding work to areas other than trade and development, as referred to in the Secretary-General's issues paper, including in the last paragraph. In particular, expansion into the topic of reform of the international financial architecture raised a number of important questions and would require further study by member States before decisions on the paper were taken. Among these questions were the nature of the links between trade and finance and the need to ensure that new work did not detract from the focus on, and resources devoted to, core UNCTAD activities.

49. To carry out any new mandate, it would be essential to have UNCTAD's organizational house in order, which would include continuing with reform of the secretariat and filling key positions. It also would include not losing sight of the past - and indeed the present - through adequate follow-up to existing programmes, especially in the area of technical assistance. While UNCTAD programmes were often regarded as useful and innovative, independent reviews of several key programmes had drawn attention to the need to ensure their sustainability and for greater attention to management issues. Furthermore, the follow-up by UNCTAD to the High-Level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development represented a major task for the organization. UNCTAD should intensify its efforts to coordinate with other organizations and to fully incorporate the principles of the Integrated Framework into its activities.

50. The representative of **Japan** associated himself with what had been said by the representative of the United States of America. Regarding the question of strengthening UNCTAD's activities in the area of finance, he did not think it appropriate to extend such activities into the process of reform of the international financial system, which was currently under consideration, although he appreciated UNCTAD's analytical work in financial fields.

51. He expressed concern at the large number of LDCs which were still faced with the threat of marginalization. This was the main reason for the holding that week of the Second Tokyo International Conference on African Development (TICAD II). UNCTAD should focus more on LDCs' trade and development issues, and a follow-up to the High-Level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development should be implemented fully and promptly. Improving market access for LDC products and capacity-building were particularly important, as were assisting developing countries in acceding to WTO and promoting South-South cooperation, an area in which UNCTAD could play a catalytic role.

52. Ideally, UNCTAD's intergovernmental machinery should perform the important function of linking research and action, analysis and policy. However, experience had shown that it might have become merely a forum for producing numerous agreed conclusions, which were often diluted and imprecise. Further thought should be given to this point.

53. The representative of **Malaysia** said that the emerging new development paradigm should include emphasis on a number of points. First, levels of output and employment should not only be protected but also enhanced, and the equity of distribution should be increased. Second, there should be balanced budgets, not budget reduction. Third, financial reforms needed to be sequenced and paced. Fourth, it was important to avoid using the term "full liberalization" (which, in any case, required proper definition). Fifth, there was an urgent need for ground rules for the international currency and financial markets. Sixth, UNCTAD and the Bretton Woods institutions should study the linkages between trade and

finance systems. Lastly, macro policies promoting competition were vital, but the choice of policy should be left to Governments.

54. He agreed with what had been said by the Deputy Prime Minister of Thailand, but viewed with concern the tendency of developed countries to link trade issues with human rights and labour issues. Regarding Japan's comment on South-South cooperation with respect to LDCs and to Africa, he pointed out that there was also a North-South angle to this, France, Japan and Malaysia having launched a trilateral initiative to help Africa. UNCTAD could have a catalytic role to play in this connection. As regards the road to UNCTAD X, he called for a balanced approach to development issues and for a refocusing of activities on member-driven, rather than donor-driven, areas of analysis.

55. The representative of **Austria**, speaking on behalf of the **European Union**, said that the Secretary-General's issues paper was thought-provoking and that some issues needed further elaboration. He expressed the desire to see the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting and the Intergovernmental Group of Experts on Competition Law and Policy brought fully into line with UNCTAD's mandate and structure. The European Union wanted UNCTAD to focus on developing countries, particularly LDCs, investment issues, the forthcoming round of multilateral trade negotiations and trade efficiency. UNCTAD should cooperate with other international organizations. He paid tribute to UNCTAD's publications, which had repeatedly warned of risks in the international financial system. Future models of development should not be doctrinaire and there was no single model of development. However, certain aspects of economic policy were self-evident and should not be questioned. UNCTAD should increase its efforts to disseminate its findings to civil society and Governments, and he hoped that the Lyon Summit would help meet this objective. He concluded by saying that the European Union remained committed to the reforms of UNCTAD IX.

56. The representative of **Guatemala** said that the problems resulting from globalization had given rise to the need to formulate new development paradigms. The "Washington consensus" was being superseded by a kind of "Geneva consensus", which acknowledged that markets were not perfect, that the trickle-down effect had not materialized and that state intervention was necessary. These ideas were not in fact new, having been previously put forward in the developing regions. According to this emerging new development paradigm, controlling inflation and ensuring monetary stability were to be seen not as ends in themselves but rather as a means of giving effect to a much broader vision of development. Such a vision would include focus on employment, properly sequenced financial reform and liberalization, competition policy and a modernized State, all aimed at promoting human development.

57. UNCTAD's mandate should be strengthened in respect of such areas as reforming the international financial architecture and the Bretton Woods institutions, good governance, sustainable development, balanced development overcoming the dichotomies of the past, training in commercial diplomacy, and a proactive development agenda. Furthermore, UNCTAD must cooperate closely with other international organizations. The United Nations Development Programme (UNDP) had developed the concept of sustainable human development, and ways should be studied of seeing how that concept and UNCTAD's development work could complement each other. Closer cooperation with UNDP would enable UNCTAD to enhance its country presence, and such cooperation could be based on the memorandum of understanding signed between the two organizations. With regard

to other organizations, the Economic Commission for Latin America and the Caribbean (ECLAC) had developed the concept of equitable development, which should be taken into account, as should the concept of the right to development, as defined by the Commission on Human Rights in its resolution 1998/72. The issue of the new development paradigm and that of cooperation among international organizations should be taken up at UNCTAD X.

58. The representative of **Cuba** said that the increased stature which UNCTAD had acquired as a result of the reforms implemented since Midrand showed that it was on the right track. This should be an asset and an incentive in facing the challenges involved in the preparation of UNCTAD X.

59. The two years since Midrand and the Board's analysis and conclusions regarding the current world economic crisis vindicated the long-held position of the developing countries, namely that UNCTAD should continue to exist as a forum for the integrated analysis of development in the areas of trade, finance, technology and related issues. It was this focus that allowed UNCTAD to formulate policy recommendations designed to promote growth, especially in developing countries, and combat the marginalization threatening those countries.

60. The output of expert meetings should be integrated into the work of the Commissions in the interest of greater institutional cohesion, and UNCTAD should continue to produce the *Trade and Development Report* and the *World Investment Report*.

61. Finally, he highlighted the fact that the recent increased effectiveness of the secretariat, the improved quality of its analytical work and of its policy advice and its training programmes had helped developing countries' experts engaged in negotiations. In the next two years UNCTAD should continue to strengthen the negotiating capacity of developing countries with a view to the Third WTO Ministerial Conference and the new round of multilateral negotiations.

62. The representative of **Turkey** welcomed the Secretary-General's issues paper concerning the guiding principles for UNCTAD's work, particularly the reference to the need to ensure an integrated approach to development. She hoped that UNCTAD X would lead to synergy between UNCTAD's expertise in development issues and the normative work on and experience in cross- cutting issues of other organizations.

63. With regard to the process leading up to UNCTAD X, she said that this should review UNCTAD's vision, role and functions and enhance its comparative advantages. In this connection, she pointed out that UNCTAD's analytical work and its technical cooperation activities seemed to be progressing along two different tracks without intersecting often enough. The Conference should establish mechanisms to ensure linkages between different functions and strengthen their mutually supporting nature, and decide which technical cooperation activities should continue and which should be terminated. In addition, it should examine the newly developing partnership mechanisms and how to fit them into mainstream activities.

64. Referring to the visibility of UNCTAD, she said there was a gap between what the secretariat did and what it reported to its membership and to its parent bodies. An appropriate mechanism was needed to enhance visibility and ensure the dissemination of the whole output of UNCTAD.

65. Finally, she underlined the need for improvements in the following linkages: between the budget and the mandated work; between various levels of the intergovernmental machinery; between the different Divisions of the secretariat; between subprogrammes; with the rest of the United Nations system; with the parent bodies; and with the member Governments.

66. The representative of **Norway** agreed with the Secretary-General that UNCTAD's aim was to make globalization an instrument for the sustainable development of all countries. Since UNCTAD was not alone in pursuing this task, it was necessary to define the scope of its operation and functions in relation to other international bodies in order to maximize cooperation and synergies and to avoid duplication. In preparing for UNCTAD X, yet another major shift in UNCTAD's role and functions should be avoided. Since 1992, UNCTAD had been engaged more or less in a process of constant transformation and was still consolidating what had been decided only two years earlier. Recommendations which arose from the Mid-term Review process should now be fully implemented and progress reported. Continued efforts aimed at reform of the secretariat and filling key positions were among important prerequisites for future success.

67. UNCTAD had an important role to play in transforming new analysis into practical policy measures. However, not everything could or should be addressed by UNCTAD. In the years ahead it would be important to ensure a clear focus and to set priorities for the organization's activities. UNCTAD should continue to assist developing countries in identifying their interests in preparation for further multilateral trade negotiations, making use of existing trade regimes, attracting investments and developing a dynamic private sector. Development issues should be dealt with in a comprehensive and integrated manner. UNCTAD was part of a much broader inter-agency framework, covering the whole United Nations system, the Bretton Woods institutions and WTO, and could and should be a useful partner in this context.

68. UNCTAD was the focal point for the United Nations Programme of Action for the LDCs, and the *Least Developed Countries Report* remained a valuable reference document. He urged UNCTAD to incorporate the Integrated Framework into its work. He was disappointed with the low prioritization of LDC issues within the UNCTAD secretariat. A significant shift was needed in order to ensure successful preparations for the forthcoming Third United Nations Conference on LDCs. Lastly, he expressed the hope that all outstanding problems of the Office of the Special Coordinator for LDCs would be addressed promptly.

69. The representative of the **Republic of Korea** expressed the belief that the reform process conducted since Midrand had been, in general, satisfactory, and he commended the Secretary-General of UNCTAD for his efforts in restructuring the secretariat. He was concerned, however, about the fact that some important positions - Directors and the Special Coordinator for LDCs - had been vacant for a long time.

70. The recent economic turmoil in East Asia had had a significant impact on living standards in the region. Therefore, the management and prevention of such crises were obviously issues which should be analysed from the development perspective. In this respect, the analysis in the *Trade and Development Report, 1998* was timely and the discussions at the High-level Segment had been useful. He hoped that UNCTAD would continue to contribute to the global discussions on these issues by providing analytical insights from the development angle. It was necessary to reflect seriously on how to put an end to the current crisis, prevent

its recurrence and prepare to meet future challenges, such as the new structure of world finance after the launch of the euro, so that new changes to the system would provide monetary stability rather than triggering destabilizing effects on vulnerable economies. Furthermore, UNCTAD should focus more intensively on trade, especially new trade agendas to be included in the next round of trade negotiations, so as to help developing countries maximize the benefits from the latter. In conclusion, he wished to encourage UNCTAD's efforts to enhance dialogue and cooperation with civil society, and he recommended that UNCTAD continue its efforts to sensitize Governments' awareness of UNCTAD's reform and its actions.

71. The representative of **Switzerland** noted that much had been achieved since Midrand, but that there was still potential for improvement in the functioning of the intergovernmental machinery, as well as a need to better adjust resources in the secretariat to selected priorities. She said that her country appreciated the thought-provoking work of UNCTAD, and that the organization had an important role to play in helping developing countries to meet the continuing challenges ahead in the field of trade. The current session of the Trade and Development Board and the Secretary-General's issues paper on the High-level Mid-term Review suggested that new, wider and potentially diverging roads be explored. While these certainly deserved to be given thought, she hoped that in the design of UNCTAD's future agenda, due consideration would be given to avoiding an expansion in areas where the organization had no real comparative advantage or where there was only limited scope for achieving concrete results with the means available. Lastly, ways and means had to be found to enable developing countries, particularly LDCs, to participate more effectively in the multilateral trading system.

72. The representative of the **Russian Federation** said that his delegation agreed with many of the conclusions contained in the outcome of the Mid-term Review. UNCTAD's policy work had been especially useful in the fields of interdependence, foreign direct investment, risk management and electronic trade, and the three flagship reports had also been useful. Its applied work had been of particular utility in the fields of investment promotion, enterprise development, trade in services, accession to WTO, competition law and policy, and standards of accounting and reporting. Due attention was being paid to the involvement of the private sector and civil society in the work of UNCTAD, cooperation with other international organizations, and linking analytical work and technical cooperation activities. However, the fact that the gap between needs and available resources was growing was a matter of concern.

73. His delegation fully supported the recommendations of the Mid-term Review on the need to cover all regions in work on globalization and development strategies, the participation of civil society in concrete projects, the involvement of UNCTAD in analytical work on an international framework for investment, and the use of performance indicators, feedback mechanisms and a results-based approach. It welcomed the fact that, in work on land-locked countries and countries in transition, all the countries concerned would be consulted. Lastly, it supported the proposal regarding the preparation of an annual report, provided that such a report did not duplicate existing reports.

74. The representative of **Jamaica** emphasized the importance of the item under discussion. He hoped that in reviewing the strategies pursued by the "emerging economies", the positive aspects of the policies pursued would not be forgotten.

75. He believed that there was a problem regarding UNCTAD's credibility as intergovernmental machinery. While it appeared that the UNCTAD secretariat's analysis was considered important in various quarters, the intergovernmental machinery's voice was perhaps not heard. Often, there was a dichotomy between the views of Governments and those of the secretariat.

76. The growing income disparities within and among countries were likely to become more accentuated, and this was a challenge for an integrated world economy. The latter should be governed by rules in whose making all countries should participate and which should reflect the interests of all countries. Rule-making on the basis of higher rankings of economic power could lead to disequilibrium in the integrated world economy. UNCTAD should encourage all countries to play a role in analysing problems and in policy formulation. The role of UNCTAD must not be limited to technical cooperation or to the secretariat making its own views known.

77. He said that UNCTAD used to be an important forum for the transfer of technology, yet this field had now been set apart from UNCTAD's agenda. Developing countries must not ignore the importance of building domestic capacity in which scientific methodologies and technological transformation were fully incorporated.

78. As the main agency for development in the United Nations system, UNCTAD should not ignore the contribution of the Bretton Woods institutions to development nor feel inhibited from contributing to the work of those institutions. It had made significant contributions in the past, including in the field of trade, money and finance for development, and should continue to do so in its analytical work. He referred to the proposal made by Jamaica in its statement on interdependence for developing a strategy of networking among international organizations. This approach would find innovative ways of linking the efforts of the United Nations in New York with those of UNCTAD, the Bretton Woods institutions, WTO and other specialized agencies to work together at the secretariat and the intergovernmental levels.

79. The representative of **Mauritius** said that UNCTAD's future work should be based on three elements. The first of these was analytical work and technical cooperation, and here UNCTAD should exploit its comparative advantage and seek wider recognition for its work. Second, UNCTAD's focus on trade, finance, investment and technology should continue, but it should be merged into the new development paradigm. The latter should be designed to bring prosperity to all countries and to help developing countries become fully integrated into the multilateral trading system. Third, as regards UNCTAD's work on LDCs, island developing countries and weak and vulnerable economies, much remained to be done, in conjunction with other international organizations.

80. The representative of **Uganda** said that the decisive test for UNCTAD should be how it matched up to its description as the focal point in the United Nations system for the integrated treatment of development and interrelated issues in the areas of trade, finance, technology, investment and sustainable development, and how effectively it delivered assistance to the LDCs, for which it was also the focal point. In this regard, UNCTAD should mobilize the other international organizations. UNCTAD's analytical capacity needed strengthening in all these areas, including finance, because it was not possible to discuss development without considering the financial aspects. Furthermore, UNCTAD should contribute to the reform of the international financial architecture.

81. With regard to LDCs, he hoped that the newly appointed Coordinator would take up her functions soon. UNCTAD must play a leading role in preparing for the Third United Nations Conference on LDCs, and the LDCs themselves should be given the means to participate actively. Also, UNCTAD should help LDCs to accede to the WTO and to participate effectively in its work.

82. He agreed with the three guiding principles of UNCTAD's future work identified in paragraph 12 of the document entitled "High-level Mid-term Review" (TD/B/45/CRP.3), namely a more comprehensive, integrated vision of development issues, a balanced approach to development policy and a proactive stance on the part of developing countries.

83. The **Chairman of the High-level Mid-term Review Meeting** noted that what had been said at the meeting clearly constituted an endorsement of the review process and had crystallized some of the diverging positions. The way forward for UNCTAD was now clearer, with much work still to be done.

84. On behalf of the Board, he formally requested the Secretary-General of UNCTAD to prepare the draft agenda for UNCTAD X, which, after consultations, would be approved at an executive session of the Board on 16 December 1998. He announced that the period from 12 to 20 February 2000 had been set aside for UNCTAD X.

Chapter II

INTERDEPENDENCE AND GLOBAL ECONOMIC ISSUES FROM A TRADE AND DEVELOPMENT PERSPECTIVE: THE CAUSES, MANAGEMENT AND PREVENTION OF FINANCIAL CRISIS

(Agenda item 4)

85. For its consideration of this item, the Board had before it the following documentation:

Trade and Development Report, 1998 (UNCTAD/TDR/1998 and Overview)

86. The **Director of the Division on Globalization and Development Strategies** said that one could ask six questions of a general nature arising from the progress of financial globalization and the current crisis of the world economy: First, when crises were provoked by large-scale capital movements, did the international financial system have the capacity to respond in an effective manner? Second, did the international monetary and development finance institutions prescribe policies that were the most appropriate to promote the recovery of the countries affected by the crisis? Third, was the burden of financial stabilization after a crisis shared equally between Governments, borrowers and private creditors? Fourth, were the policies of the industrialized countries well designed and likely to promote global economic recovery? Fifth, were there elements built into stabilization and adjustment programmes that protected the most vulnerable parts of the population? Sixth, were the developing countries that had been most affected by the crisis adequately represented in the decision-making organs of the international community and were they participating as fully as their representation committed them?

87. The **Chief of the Monetary and Development Policies Branch** and Coordinator of the *Trade and Development Report* said that, since the time of writing of the *Trade and Development Report*, a crisis had broken out in the Russian economy and global financial instability had deepened. A background paper on the Russian crisis, prepared jointly by the secretariats of UNCTAD and the United Nations Economic Commission for Europe, was being made available to delegations. The current global financial turmoil provided further support for the concern expressed in the *Trade and Development Report* about the dangers of a hands-off approach to finance and the adverse effects of financial instability on development and the process of globalization.

88. The *Report* concluded, *inter alia*, that the crisis in East Asia was yet another episode in the series of crises that had been occurring with increasing frequency since the breakdown of the Bretton Woods arrangements and the liberalization of capital movements. This conclusion had been supported by the global spread of instability, the recent hedge fund crisis, and massive gyrations in the dollar/yen exchange rate which were reminiscent of the runs on the Indonesian rupiah and the Russian rouble. One proposal of the *Report* was that the major industrial countries take expansionary action, that deflationary policies be reversed in East Asia, and that Japan provide an aid package to accelerate recovery in the region. A note making a quantitative assessment of such a package on growth, in the region and globally, was being made available. Certain policy measures adopted since the preparation of the *Report*, including the Miyazawa Plan, cuts in interest rates in the United States and elsewhere, and

more accommodating monetary and fiscal policies in East Asia, were pointing in the right direction, but much more needed to be done to avert the danger of a global recession.

89. Among the proposals in the *Trade and Development Report*, 1998 for better crisis management, there was a recommendation for an "automatic standstill", similar to the safeguard action foreseen under GATT rules. Such a mechanism, possibly in combination with IMF lending into arrears, would eliminate the need for large-scale bail-outs, contribute to a more equitable allocation of the cost of a crisis between lenders and borrowers, and allow the country a breathing space to design and negotiate an orderly debt re-organization plan. In the past few weeks there had been increased recognition that debt standstill and lending into arrears might be necessary under certain circumstances. The issue had been discussed both by the Managing Director of the IMF and in a G-22 report on financial crisis management.

90. The spokesperson for the **Group of 77 and China** (Costa Rica) said that, though the entire world economy was increasingly feeling the consequences of the crisis in East Asia, the developing world was affected much more severely then the developed countries. It was a source of grave concern that the disparities among and within nations and regions were widening further. Developing countries were suffering from reduced exports to East Asia and from falling commodity prices as a consequence of the slowdown in global demand. There was now a risk of a worldwide recession. Growth forecasts for all developing regions had been revised significantly downwards, and the developing world as a whole was unlikely to attain positive per capita growth this year.

91. It was important to sustain sound and stable macroeconomic policies and not to reverse liberalization or resort to protectionist measures. Since trade played a dynamic role in the promotion of growth and sustainable development, it was particularly important that developed countries promote the eradication of protectionism, the implementation of trade liberalization and the elimination of export subsidies.

92. The major industrial countries should revise their macroeconomic policies in a coordinated way in order to avoid a worldwide recession. The surplus countries, in particular, should take measures to stimulate demand.

93. The East Asian crisis had been caused not only by domestic factors, but also by weaknesses in the international financial system. The institutional and regulatory framework for that system had not kept pace with rapid financial globalization. An increasing share of international financial transactions was motivated by gains from speculation and arbitrage, and the volatility of these flows had important repercussions on exchange rates and the real economy. There was thus a need for greater coherence in international policy-making in trade, financial and monetary affairs, and the developing countries needed to have a greater say in the management of the global financial system.

94. In certain developing countries, the capital account had been liberalized too early and too fast. While many developing countries still needed to strengthen their financial sectors domestically, they also had to be protected against the vagaries of international financial markets. The international community therefore needed to explore collectively the possibility of designing new mechanisms for global financial governance. Moreover, countries should be better equipped with instruments to respond to currency attacks in order to

prevent liquidity crises from becoming solvency crises. A temporary standstill on debt servicing could be in the interest of both debtors and creditors. It would give a country the breathing space needed to design an adjustment programme appropriate to its specific situation and to negotiate a debt reorganization plan. This could restore market confidence faster than a deep recession.

95. The external financial situation of the heavily indebted poor countries continued to give cause for concern. Many of these countries were unable to comply with their debt service obligations, as witnessed by the fact that almost two-thirds of the increase in their debt over the past 10 years had resulted from arrears. ODA had historically played a key role in promoting investment in human capital and infrastructure, but it had been falling in real terms in the 1990s. In countries that had fallen victim to natural disasters, increased ODA flows could be an important source of rehabilitation and reconstruction.

96. The HIPC Initiative was a welcome step forward, but debt relief was still insufficient and too slow. The proposal in the *Trade and Development Report*, 1998 to create an independent body to assess the sustainability of HIPC debt was of particular relevance; such an arrangement could help facilitate decision-making and accelerate the process of debt relief.

97. The representative of **Jamaica** said that it was necessary to take a holistic approach to economic development. The participation of the citizens of a country in decision-making processes was crucial. In the same vein, participation by developing countries in the decision-making process within the international financial system and its institutions was also important. If the focus of world attention was only on issues of systemic importance, there would be a danger of the concerns of the majority of countries being overlooked. Most countries had relatively small economies, and issues of concern to them might not receive the attention they deserved, simply because they had no systemic implications.

98. The current financial crisis was only the latest event in a series of episodes over the last three decades which had prevented many developing countries from benefiting from the radiating growth of an increasingly interdependent global economy. These episodes included the oil price shocks, bouts of high inflation, major debt crises and financial market volatility. The decade was ending with the return to poverty of large sections of populations, dramatic increases in unemployment, and increasing income disparities.

99. UNCTAD should continue contributing to policy analysis and make timely contributions in all relevant forums, so that Governments could prepare for negotiations on issues related to trade and the reform of the international financial system.

100. The representative of **Austria**, speaking on behalf of the **European Union**, said that the issues raised by the current financial turmoil in the world economy were complex. The *Trade and Development Report* provided a clear, if at times provocative, discussion of these issues. The economic contraction in East Asia had indeed been longer and more far-reaching than initially expected, and this had generated significant social as well as economic problems in the region. Other emerging economies had been unable to contain the spread of the crisis, which had had particularly profound consequences for the economy of the Russian Federation. This had in turn fed back to the Asian economies themselves.

101. Appropriate measures to solve the crisis and to stimulate economic growth needed to be taken, not only in the affected economies but also in the industrial countries. But any such efforts had to be accompanied by reforms in the international financial system along the lines recently suggested by the European Union and the United States.

102. The *Trade and Development Report*, 1998 provided a useful analysis of the multiple mechanisms that had led to the spread of the East Asian crisis within and beyond the region; it had also raised a basic dilemma facing the international monetary system: on the one hand, the limits of fixed exchange rates became pressing in the face of inflationary and structural constraints; on the other hand, freely flexible regimes had many problems in the absence of any clear anchors. Solving this dilemma could not be separated from the question of the appropriate role of international institutions in tackling financial turmoil.

103. The representative of **China** said that the *Trade and Development Report*, 1998 gave an accurate analysis of the causes, management and prevention of financial crises. Advocating financial liberalization should not mean Governments giving up their responsibility for financial regulation and supervision. Experience had shown that financial order and safety could only be ensured when strong financial rules and regulations and surveillance of banks and capital markets existed. Otherwise, opening up the capital account would lead to a collapse of the financial system and economic crisis.

104. China had been seriously affected by the crisis through a reduction in exports and foreign investment. In response, banking regulations and surveillance by the central bank were being strengthened. Moreover, China had provided aid to other countries in the region, participated in the international programme of financial support for East Asia, and taken measures to increase domestic demand with a view to stimulating growth in the world economy, including a lowering of interest rates. The country would speed up and deepen the reform of its domestic financial system, while aiming to prevent and mitigate any financial risk. External financial liberalization would be pursued further when the time was ripe.

105. In order to reduce the instability of the international financial system, all countries had to work together against excessive short-term financial flows and speculative attacks. The major industrial countries should expand their domestic demand, open their markets and contribute to the stabilization of the Asian economies, which still had great growth potential.

106. The representative of **Indonesia** said that the reversal of capital flows to East Asia had been caused by a turnaround in the initially favourable external environment and by shortcomings in the deployment of these funds and their intermediation in the receiving countries. Despite its excellent macroeconomic management, Indonesia had been severely affected by the loss of confidence resulting from the crisis. The cornerstone of the country's stabilization programme was a tight monetary policy, aiming at avoiding hyper-inflation and restoring international market confidence. A revival of growth also required a restructuring of the weak domestic financial system, and the first steps in this direction had already been taken. The ongoing restructuring of the huge corporate debt was based on the principle that the Government did not assume the commercial risk of private lending. Bankruptcy procedures and laws had also been reformed.

107. The measures taken to alleviate the social impact of the crisis had substantially increased the budget deficit, the financing of which was possible only with external support in the form of partial rescheduling of the public debt. Broad-based structural reforms were under way, including privatization and the introduction of a competition law. An effort was being made to eradicate corruption, collusion and nepotism, and a timetable had been established for democratic elections. At the regional level, a surveillance mechanism had been established with the support of the Asian Development Bank, and an agreement had been reached to establish an ASEAN stand-by facility to help members overcome short-term liquidity problems.

108. Since the crisis was a systemic problem, innovative measures at the national, regional and global levels were required to address the lack of surveillance, the regulation of short-term capital flows and the volatility of currency markets. UNCTAD should play a key role in strengthening the international financial architecture.

109. The representative of **Japan** said that, despite the current crisis, it should not be forgotten that East Asia's rapid economic development had been attained through liberalization of both trade and finance. UNCTAD should remain a strong vehicle for combating any protectionist backsliding. Japan's current challenge was to bring about recovery of the domestic economy and to assist other crisis-ridden Asian economies. In April 1998, the Government had announced a large policy package to stimulate the domestic economy, and since August 1997, Japan had also been by far the greatest supporter of the other economies in Asia; it had provided a total of $43 billion in the form of long-term financing, trade insurance, grant aid and technical assistance. Additional bilateral support in response to the Asian crisis, worth $30 billion, had been announced in early October 1998.

110. Even though the Asian crisis had shown that the risks and costs of liberalized short-term capital movements could sometimes exceed their benefits, the development strategy based on the market mechanism was still essentially valid. However, capital account liberalization needed to be appropriately sequenced, starting with foreign direct investment and long-term capital flows. There was also a need for improved monitoring of international capital flows, in particular with regard to the activities of large institutional investors such as hedge funds. Borrowing banks and corporations required appropriate risk management tools and had to be subject to adequate prudential supervision. Some consideration needed to be given to effective measures to protect emerging economies from the adverse effects of excessive short-term capital flows. The *Trade and Development Report*, 1998 had raised important issues in this regard, but the feasibility of some of the proposals, such as the introduction of formal insolvency procedures over a national economy, seemed questionable. Some of the prescriptions, such as capital controls and unilateral debt standstills, were presented without enough caution as to their side effects. Thus, more analysis of possible instruments and further creative thinking were required.

111. The representative of the **Republic of Korea** said that the East Asian crisis was only partly due to domestic problems in the countries directly affected. Deficiencies in the mechanisms of the world economy had also played an important role. The international community had to assume the task of preventing a worsening of the crisis and its spread to other regions. It also had to help the affected countries to recover. In the medium and long term, management and prevention of financial crises had to be improved.

112. Like other countries in the region, the Republic of Korea had made painful efforts to undertake necessary reform, while braving many hardships and withstanding great social distress, including many lay-offs. The economy was now in the second stage of reform. For the adjustment measures in the crisis-ridden countries to succeed, major overseas markets had to expand. The relaxation of monetary policies in some G-7 countries was therefore welcome, as was the decision of ASEAN countries to accelerate trade liberalization.

113. International action was also needed to ensure that emerging markets enjoyed continued access to external capital flows through official credit lines and investment insurance. To prevent financial crises in the future, it would be necessary to reach general agreement on a new global financial structure, maintaining a balance between the need for more effective monitoring of capital flows on the one hand and that of avoiding over-regulation on the other. UNCTAD's proposals in this area were an important contribution to this end.

114. The representative of **Chile** said that the crisis that had begun in East Asia had taken on unexpected dimensions, as it was spreading to other regions, including Latin America. Sound macroeconomic policies were now called for, and the process of trade liberalization needed to continue.

115. Chile was affected by the crisis directly because the countries of East Asia were major trading partners, and indirectly because of falling prices for copper, on which it was highly dependent for export earnings, and also because international investors were generally reassessing the risks in emerging markets. The drop in the country's export earnings would increase the current account deficit and make it difficult to maintain the recent growth trend. But the economy was better prepared to face a crisis than it had been in 1992. External debt, including short-term debt, was under control, and the country had a well developed system of financial regulation and supervision, meeting the criteria of the Basle Committee. The level of international reserves was also satisfactory. The emerging current account problems were to be redressed by a restrictive fiscal and monetary policy, a high real exchange rate, and the continuation of a trade policy that emphasized openness, integration and diversification.

116. The representative of **India** said that in an increasingly interdependent global economy, international financial instability had global ramifications. What had started as a financial and exchange rate crisis in Asia more than a year before had now spread to economies accounting for 40 per cent of world output. The world economy was on the precipice of a serious deflationary cycle, with the attendant threat of rising unemployment and poverty in many developing countries.

117. Financial crises had occurred with increasing frequency since the collapse of the Bretton Woods system. Many of these, including the latest one, had been preceded by the liberalization of the economy, notably the financial sector. The approach towards capital account convertibility therefore had to be properly sequenced and carefully calibrated. It was also apparent that prudential norms and strong supervisory capacity were required as much for facilitating efficient international intermediation of volatile capital flows as they were for an efficient domestic financial system. Restraint on short-term cross-border borrowing and lending might even have to be viewed as a prudential norm rather than a restriction on capital flows. Temporary measures to control a crisis might also be viewed as a legitimate "safeguard" action.

118. Foreign direct investment (FDI) had an important role to play in a globalized world. However, developing countries like India, while encouraging FDI, had been exercising their discretion to ensure that a liberal investment climate was in harmony with the diverse needs and concerns of their economies.

119. In a highly interdependent global economy, it was no longer possible for any country to remain unaffected by developments elsewhere or to contain the damage to the domestic economy by the pursuit of domestic measures alone. The international community must come together not only to mitigate the social and economic effects and human suffering which resulted from financial crises but also to prevent the frequency and the scale, if not the recurrence, of such crises. An action programme should include an immediate joint programme of the IMF and the countries concerned for restoration of confidence and stability; an international safety net for vulnerable countries; concerted macroeconomic action by the major industrial countries to avoid a global recession; maintenance and improvement of an open international trading regime; a thorough reform of the international monetary and financial system; a thorough review of IMF operational policies and procedures; and a new global commitment to strengthening official development assistance (ODA).

120. Recent trends in ODA and in the transfer of resources through the World Bank were disturbing, but the present crisis underscored the important role of official flows. The developing countries also continued to need better access to the markets of the developed countries through deeper trade preferences and other measures. A renewed commitment was also needed to enhance sustainable growth and alleviation of poverty in the least developed and the developing countries.

121. The representative of **Thailand** said that UNCTAD's analyses were highly thought-provoking and forward-looking, and the warning of the contagion effect resulting from the Asian crisis was, regrettably, proving justified. There was now a need for international action to reverse the widening economic disparity among and within nations, which led to the marginalization of many developing countries and threatened the stability of the multilateral trading system.

122. Although the analysis and proposals in the *Trade and Development Report*, 1998 seemed to be at odds with policies in the Asian economies affected by the crisis, the international community should give active consideration to the proposals and embark on a more balanced approach in order to reduce the risk of capital volatility and its adverse impact on the international financial and trading system. UNCTAD should continue its analysis of this issue, contribute to the debate on a new international financial architecture, and support the developing countries in their effective participation in designing a balanced international financial system which would be conducive to long-term economic growth and development.

123. The representative of **Belarus** said that the East Asian crisis showed the urgent need to create, on a multilateral basis, efficient new mechanisms to evaluate, forecast and prevent financial crises. As long as global and regional instruments for crisis prevention were absent, Governments should have available to them a range of national measures to avert a destabilization of the domestic financial system.

124. The financial crisis had given rise to a discussion on the role of the state in managing financial and economic processes. So far, two points of view had clearly emerged: some considered that the crisis had been caused by too much

state intervention in financial matters, while others held that insufficiently thought out and active state policies in this field had facilitated the spread of the crisis. The Belarus Government was pursuing a policy of gradual and carefully considered economic change. The strategic goal of economic development was an efficient, open, socially oriented market economy, and the policy mix included flexible monetarism as well as elements of state regulation. Unfortunately, this approach to economic reform had not received broad support from the IMF and the World Bank, even though Belarus' GDP growth during the last two years had averaged 11 per cent.

125. Belarus regarded the globalization of the world economy and the liberalization of world trade as an objective phenomenon. Regrettably, however, it had to be acknowledged that so far not everyone had benefited from these processes. Statistics showed that, at present, the tariff barriers confronting products from the least developed countries in world markets were overall 30 per cent higher than average. In addition, in some markets a number of products, including some from Belarus, continued without any good reason to face anti-dumping measures introduced for protectionist purposes.

126. The representative of **Pakistan** said that the current financial crisis, which had initially appeared to originate in domestic weaknesses in the directly affected countries, also reflected the systemic problem of how to harness the process of globalization. Crises of this kind did not imply merely financial problems, but also severe hardship for the most needy. They made the economic prospects of developing countries much more sombre and called into question several elements of the current development paradigm.

127. There was an urgent need for action to maintain growth and demand in the global economy, and for the provision of an adequate level of liquidity, for example through the recycling of the budget surpluses of some Asian countries. Issues related to a temporary debt standstill and an orderly workout of debt situations needed to be explored in greater depth. Countries should be given greater autonomy in taking measures designed to resolve a crisis, since standard prescriptions had proven not to work satisfactorily in all countries.

128. The case for further trade liberalization needed to be reconsidered, since the pace with which the countries now affected by the crisis had liberalized their trade regimes might have been too fast for their supply capacities and external competitiveness. The resulting trade deficits had been financed by short-term capital inflows whose reversal had eventually triggered the crisis. Against this background, the international financial architecture appeared to be inadequate, and the way in which the development process was managed and development strategies were pursued needed to be reconsidered. UNCTAD had an important role to play in the urgently needed reconsideration of the linkages between trade, finance and development.

129. The representative of the **Russian Federation** said that there was an urgent need to discuss the reform of the international financial system. The main issues in such a debate would be the reform of the Bretton Woods institutions; new instruments for the IMF to prevent financial crises in individual countries; the elaboration of "rules of conduct" for government action in the area of external financial relations; improving the monitoring of international financial transactions; strengthening coordination among the international financial and banking institutions; better international coordination of financial and economic

policies; and instruments for the regulation and control of international capital movements, especially short-term speculative flows.

130. Russia was aiming at further integration into the world economy through the creation of conditions for "civilized" competition of Russian producers in international markets and the continuation of the negotiations on accession to WTO.

131. The representative of **Sri Lanka** said that while developing countries were pursuing structural reform, particularly with regard to trade liberalization, the debate on capital account liberalization had taken on renewed interest. The crisis had highlighted the importance of orderly, gradual liberalization of the capital account, taking into account the specific circumstances of each country.

132. Several other lessons had emerged from the crisis. First, countries with a relatively weak financial system had been affected more severely than those with a stronger financial system. Thus, effective prudential supervision was critical. Second, it was important that macroeconomic policies be consistent with exchange rate policy. Third, there should be an equitable sharing of the financial burden arising from crises among private creditors, borrowers and the Government of the affected country.

133. In Sri Lanka, macroeconomic policies had secured a reasonable degree of stability. The policies included the maintenance of some capital controls, enhanced surveillance of financial market activity and a rise in short-term interest rates. The concentration of Sri Lanka's foreign borrowing in long-term maturities was also a positive factor. Nevertheless, the country would not escape the indirect negative impact of the East Asian crisis, which took the form of a loss of competitiveness of exports vis-à-vis those countries that had devalued their currency, lower import demand from the crisis-ridden countries and a decline in investment inflows from these countries.

134. The representative of **Senegal** said that, due to the huge speculative capital flows in a deregulated financial system, the current crisis had become a global one. While there was no doubt that the Asian countries would sooner or later overcome the crisis, they still needed external support. There was broad agreement that a return to protectionism had to be avoided, but the international financial system required more transparency and greater discipline. Government policies had to be based on prudence, and solidarity and universal cooperation were indispensable.

135. Efforts towards the liberalization of capital movements had to strike a balance between the interests of different actors. UNCTAD's proposals for a reduction of financial instability and for the reform of the international financial system were of great relevance. International surveillance over national economic policies should be strengthened, taking into account the interests of the developing countries.

136. For Africa, the main lesson from the crisis was related to prudential regulation. Africa was indirectly affected by the crisis through falling international commodity prices. Many African countries were in need of debt relief and better access to the markets of developed countries in order to continue their reforms successfully and accelerate growth.

137. The representative of **Switzerland** said that the *Trade and Development Report*, 1998 contained a useful analysis of the current situation from the perspective of the developing countries. There was a broad consensus that the causes of the crisis lay in inadequate macroeconomic policies, including insufficient financial supervision and transparency, on the one hand and structural disequilibria, including the use of short-term funds for the financing of long-term loans/assets, on the other. International investors had underestimated the structural problems, and these had now to be tackled as a matter of priority.

138. Measures that cured only symptoms or were inflationary had to be avoided, since they would aggravate budget deficits and delay recovery. The full impact of the crisis was still unclear, but even the developed countries were now affected, and growth forecasts were constantly being revised downward. The management of the crisis required strengthened cooperation among all countries and among international institutions.

139. Liberalization of trade and capital flows remained a medium-term objective, and any restrictions introduced in these areas must be limited in time. Free international capital movements were a key factor for the development of emerging economies, but in the management and prevention of financial crises, private creditors had to bear their share of the responsibility. Moreover, a liberalized economy needed an effective system of surveillance.

140. The representative of **Malaysia** said that globalization had not led to wealth creation and prosperity for all; rather, the world economy had fallen victim to the rapid process of globalization, as the financial crisis was spreading from Asia to other regions. Malaysia had been hit particularly badly, with per capita income falling dramatically, from around US$ 5,000 to US$ 3,000, under the joint impact of a 40 per cent currency depreciation and a severe contraction of the real economy. The conventional austerity measures that had been implemented to combat the crisis initially had only aggravated the depressed state of the economy. The Government had recently changed its course, trying to insulate Malaysia from the hostile external environment by the imposition of foreign exchange controls. However, such action must be seen as emergency intervention, which was no substitute for sound macroeconomic and financial policies; controls would be removed once the storm was over, and a global solution would have to be found to what was essentially a global problem.

141. At the international level, the debate on the remedies for the global financial crisis was still far from producing an adequate solution. The overall architecture of the international monetary system had to be reformed, with the creation of an international regulatory body to oversee the functioning of capital markets. Other international financial cooperation proposals, such as the establishment of an international lender-of-last-resort facility, as proposed by UNCTAD, should be seriously pursued.

142. The measures implemented by Malaysia were starting to show positive results in terms of increases in reserves and the first signs of recovery in the domestic economy. In the long run, Malaysia remained committed to globalization and liberalization.

143. The representative of **Cuba** said that orthodox liberalization and deregulation policies had been catastrophic for the East Asian economies, which were as vulnerable to external factors as they were attractive for international

capital flows. Their regulatory and supervisory systems had turned out to be inadequate in the face of the increased risks resulting from the enormous capital inflows.

144. However, the crisis was a systemic one, with external origins and worldwide consequences for output and employment. With deregulation and loosening of control of economic and financial activities, the possibilities of preventing crisis situations of this kind were much reduced. Given the interdependence of economies worldwide, speculation represented a real danger. It was deplorable that the costs of the failure in global markets and of the measures to bail out creditors were borne by ordinary people.

145. It should remain possible for a country to declare a debt moratorium and to apply foreign exchange restrictions to counter an attack on its currency. The role of the State in the economy had to be strengthened and the functions of the Bretton Woods institutions had to be reviewed.

146. Many developing countries needed better access to official external financing, a solution to their external debt problem, and improved access to markets of developed countries. Cuba had been suffering from an economic, commercial and financial blockade for more than 37 years.

147. The representative of **Guatemala** said that the proposals on the control and prevention of international financial crises in the *Trade and Development Report*, 1998 were very important. All developing countries were seriously concerned about the current crisis, and although the Central American subregion had not been badly affected so far, some negative impact was being felt due to the fall in international commodity prices.

148. Globalization was an irreversible trend involving considerable development potential for all parties involved but also an increased risk of international financial crises, hence the importance of the diagnosis provided by the UNCTAD secretariat. Particularly interesting and welcome were the proposals to establisn a new "lender-of-last-resort" facility and to allow countries under severe speculative attack to declare a unilateral debt standstill on the basis of criteria analogous to those of Chapter 11 of the United States Bankruptcy Code. A procedure of that nature had already been applied with success by the Government of Costa Rica. Other measures for crisis prevention proposed by UNCTAD, such as increased information and transparency, enhanced supervision and monitoring of financial activity, and control of certain types of capital flows, would also be given positive consideration by Guatemala. The role of UNCTAD in the analysis of the international financial system and in the proposals for its reform should be strengthened further.

149. The representative of **Norway** said the recent crisis had made it clear that the process of globalization, while significantly contributing to growth and development, was also accompanied by risks and dangers. The management of the process of globalization at the national and the international level had to be improved to ensure that all nations be given the opportunity to enjoy the fruits of globalization, while mitigating the possible adverse effects of the process.

150. The international financial architecture needed to be improved. Policy recommendations of international institutions had to be more coherent. In this context synergies could be found more easily now, given that the mainstream of

world economic thinking was moving towards UNCTAD's views. The independent voice should, nonetheless, not be discouraged.

151. A sound financial sector, good governance, broad-based social investments, respect for human rights, and transparency in both the public and private sector were factors at the national level conducive to economic and social growth and development. Investment in basic social services, including health and education, yielded the highest returns. A mutual commitment should therefore be made by developed and developing countries to allocate 20 per cent of ODA and 20 per cent of national budgets to basic social programmes.

152. The Asian crisis illustrated that even well managed economies were vulnerable to external shocks. There was a need for a more supportive external environment, with better schemes for debt relief, improved market access and a higher share of capital flows directed to productive use rather than to short-term speculative gains. The HIPC initiative was the most constructive multilateral scheme launched so far, but additional measures were required. Norway had adopted a debt relief strategy which, in addition to supporting existing multilateral schemes, included bilateral debt reduction measures. Other creditor nations should develop similar arrangements. The UNCTAD secretariat's good analytical work needed to be translated into effective policy advice to individual countries so as to enable their Governments to adopt proactive policies to avoid the adverse effects of globalization.

153. The representative of **Egypt** said that financial instability had occurred with increasing frequency in the 1990s in both developed and developing countries. While in developed countries financial crises typically took one form, in developing countries they took several, including widespread disturbances in the financial markets, currency turmoil and external debt crises. A common feature of the different financial crises was that they had been preceded by liberalization of domestic finance and the capital account, and they had been triggered by a sudden reversal of financial flows caused by herd-like behaviour of investors and creditors. Whereas inflows were attracted by domestic factors, outflows were triggered by external ones. Domestic policies should not, therefore, be regarded as the sole reason for the crisis. Moreover, the fact that countries which had followed interventionist policies had not experienced similar crises suggested that dismantling state guidance of private financial flows and investment could be dangerous.

154. Since a sudden reversal of financial flows caused severe liquidity problems, there was a need for an international lender of last resort, and countries facing a crisis should have the possibility of resorting to debt standstill. In the most recent crisis, the assistance coordinated by the IMF had only come after the currency collapse and had taken the form of bailouts protecting creditors and putting almost the entire burden on debtors.

155. Global surveillance had not been successful in preventing financial crises due to its inherently unbalanced nature. Its modalities were not adequately geared to responding to the consequences of shifts in the monetary policy and exchange rates of the major OECD countries, which exerted a strong influence on international capital movements. Governance in the area of global finance lagged behind that of global trade.

156. Financial reforms at the national level did not provide full immunity against financial crises originating in the global system, but they could limit

the consequences. Controls to regulate international portfolio investment flows should be contemplated, since such flows were increasingly motivated by the possibility of short-term capital gains and not by long-term prospects of companies and countries. Against this background the proposals contained in the *Trade and Development Report*, 1998 for the reform of the international financial system deserved to be discussed further in different international forums, particularly in the context of the reform of international financial institutions.

157. The representative of **Poland** said that, after nine years of shock therapy, the Polish economy now showed some promising results, including fast GDP growth of 6.9 per cent in 1997, an increase in investment, lower inflation, a strong export performance, a decline in unemployment to below 10 per cent in 1998, and higher household income and private consumption.

158. This was, however, accompanied by trade and balance-of-payments deficits, and export growth might slow due to lower external demand, particularly in the European Union, and currency appreciation. Despite a large external debt burden, the country had accumulated significant foreign exchange reserves, and inflows of FDI represented an important factor in the transformation of the economy to a market-based system. Poland would also be affected by the current crisis due to the relatively high share of primary commodities in its exports, which rendered the country, like most developing and transition economies, vulnerable to volatility in the international prices for such goods.

159. The representative of **Uganda** said that the spread of the present economic crisis demonstrated the inherent risk of globalization. In order to benefit from integration into the world economy, countries must first attain a certain degree of social and physical infrastructure development, increase agricultural productivity, acquire technological and managerial capabilities, and create institutions to regulate and facilitate the functioning of markets. Before the crisis, economic orthodoxy had held that a current account deficit was acceptable and sustainable if it stemmed from investment as opposed to consumption and if it was a result of private sector activities. The current crisis illustrated the fallacy of that belief.

160. Many LDCs had succeeded in establishing macroeconomic stability, but this had not always been accompanied by faster growth rates, and economic reforms had led to higher unemployment. Moreover, the fact that LDCs had difficulties in attracting private external financing remained a critical problem, especially in view of the continued stagnation in ODA flows. The HIPC Initiative was an important step, but debt relief under the Initiative should be provided faster and with maximum flexibility. One lesson from the crisis was that full liberalization of capital flows increased the volatility of short-term flows but did little to increase investment and growth. Another was that the free market alone could not be expected to lead to socially optimal results. UNCTAD had an important role to play in contributing to the debate on these issues and in proposing solutions.

161. The representative of **Brazil** said that, despite prudent policy measures, Brazil had been affected by the current international crisis through capital outflows and an impending attack on its currency. The causes were entirely exogenous and related to the volatility of worldwide financial capital flows. Development prospects for Brazil and most other Latin American countries were therefore clouded, although their economic policies had been widely praised over many years.

162. In the current situation, world leaders should therefore act jointly to promote increased coordination of monetary policies and an upgrading and strengthening of international financial institutions. There was also a need for a global strategy for crisis prevention.

163. The representative of **Bulgaria** said that the *Trade and Development Report*, 1998, with its in-depth analysis of the East Asian crisis, was one of the best reports by UNCTAD and was of particular interest to developing countries and countries in transition, since it treated the crisis in a global perspective and not as a local phenomenon. Possible contagion was a problem not only for the developing countries and economies in transition, but even for the developed countries. This was one of the negative aspects of globalization.

164. Since the beginning of 1997, Bulgaria had implemented a number of structural reforms with the support of international financial institutions. It was expected that these reforms would lead to an improvement in the country's economic performance in the coming years.

165. The impact of the recent international financial turmoil and the effects of global interdependence on the transition economies should continue to be analysed in future issues of the *Trade and Development Report*. Of special relevance were issues related to interdependence between countries in transition and developing countries.

166. The representative of **South Africa** said that the ongoing financial crisis was not the end of the Asian miracle, but a systemic correction which, after some restructuring in the countries affected by it, would serve to enhance Asian competitiveness in the future. South Africa's economy might suffer from the repercussions of the crisis in Japan, the United States and Europe. The exchange rate and stock prices in South Africa had fallen significantly. The local markets had now been stabilized but it was very dangerous to bring down domestic interest rates before stability had returned to the international markets.

167. The international financial architecture had to be reformed in such a way that financial market activities and capital flows were made more transparent. The Asian crisis had exposed the fault lines in the global system, which required a regulatory framework designed to avoid excessive speculation and unsustainable capital flows. Moreover, economic policy had to be linked to social development.

168. There was a need for mechanisms, information systems and technical assistance to prevent financial crises and to neutralize their effects, and for a reform of the international monetary and financial system incorporating a multilateral surveillance mechanism. UNCTAD should continue to play a key role in the analysis, management and solution of the current crisis and the systemic issues involved.

169. The representative of the **International Confederation of Free Trade Unions** (ICFTU) said that the recent financial crisis had seriously affected the level of employment around the world. In Asia alone, the economic turmoil had caused unemployment to increase by 10 million, and the heaviest burden of economic distress had to be borne by the most vulnerable groups in society.

170. In order to prevent these adverse effects from spreading further, international policy action to improve the functioning of financial markets should be integrated with international strategies to eradicate poverty. A key issue

in that connection consisted in redefining the role and responsibilities of the Bank of International Settlements, IMF, the World Bank, OECD and the Basle Committee on Bank Supervision.

171. In order to ensure that protectionist pressures were removed and workers got a fair share of the benefits of trade liberalization, international trade agreements should contain a social clause which would grant a set of basic rights to workers to be applied universally.

Informal meetings

172. The Board pursued its consideration of agenda item 4 in informal meetings.

Statement on the informal meetings

173. The representative of **Uruguay**, speaking in his capacity as chairman of the informal debate on item 4, said that the debate had been very useful. It had become clear in the discussion that many features of the present crisis were universal, but its manifestations differed across countries. Consequently, universally applicable models could not be devised. An important lesson from the crisis was the role of systemic factors, exogenous to national economies. There were numerous examples showing that national efforts over many years to attain macroeconomic equilibrium and to develop the domestic financial system were insufficient to protect a country from financial crises when the external environment was unfavourable. National policies to overcome the crisis should be geared not only to restoring macroeconomic equilibrium and to strengthening the domestic financial system, but also to restoring growth and attracting new capital inflows, while international efforts were required to improve the external environment. It was also crucial, at the international level, to improve the monitoring and supervision of capital flows, particularly short-term speculative flows.

174. It had become clear that the international financial system had a number of shortcomings, deficiencies and limitations and that its architecture had to be reformed. Distinct positions had emerged on the extent and scope of the reforms, with suggestions ranging from marginal improvements of the present rules and regulations through more radical changes in international financial institutions, in particular the IMF, to the establishment of a new international financial authority with functions going beyond those of existing bodies. The conclusion of regional financial agreements could be a useful complement to reform efforts at the global level.

175. The lack of a lender of last resort had been singled out as a major weakness of the present system. While, in the view of some, this function should be incorporated in a reformed institutional system, others questioned the feasibility of the proposal and stressed the need for better instruments to prevent or contain financial crises. A lender of last resort had to take into account the specific needs of the least developed countries, which in many cases were unable to attract private capital.

176. In the debate on protective measures which might be adopted by countries confronted with problems resulting from international financial instability, reference had been made to the safeguard measures provided for in trade agreements. While in the view of some delegations a temporary debt standstill was an important measure to be considered in an emergency situation, others had

mentioned the introduction of controls over short-term capital movements, moratoria, or taxation of capital flows as possibilities for the better management or prevention of financial crises. However, some delegations had felt that such measures would be counterproductive. On the other hand, greater transparency and better information on the activities on financial market were necessary to ensure an adequate functioning of these markets.

177. There had been broad agreement that international trade was not a cause of the crisis, but, on the contrary, could help to overcome it. Recourse to protectionism in response to the effects of the crisis therefore needed to be avoided.

178. The crisis had shown that UNCTAD could make an important contribution to analysis and policies in the field of international money and finance. The secretariat had provided a sound, independent and timely analysis of the crisis. Not only should the organization's existing mandate in this area be consolidated, but UNCTAD should also contribute to the elaboration of national and international measures for the prevention of financial crises and participate actively in the reform of the international monetary and financial system, focusing on the interdependence of trade, finance and development.

Action by the Board

179. At its 900th plenary meeting, on 23 October 1998, the Board adopted agreed conclusions 451 (XLV). (For the text of the agreed conclusions, see TD/B/45/13(Vol.I)).

Chapter III

REVIEW OF PROGRESS IN THE IMPLEMENTATION OF THE PROGRAMME OF ACTION FOR THE LEAST DEVELOPED COUNTRIES FOR THE 1990s: (a) TRADE AND INVESTMENT IN LDCs: OPPORTUNITIES AND CONSTRAINTS IN THE MULTILATERAL TRADING SYSTEM; (b) CONTRIBUTION OF THE BOARD TO THE CONSIDERATION BY THE GENERAL ASSEMBLY, AT ITS FIFTY-THIRD SESSION, OF THE DATE, DURATION AND VENUE OF THE THIRD UNITED NATIONS CONFERENCE ON LDCs AND ITS PREPARATORY PROCESS

(Agenda item 5)

180. For its consideration of agenda item 5, the Board had before it the following documentation:

The Least Developed Countries 1998 Report (UNCTAD/LDC(1998))

Consideration in Sessional Committee I

181. The **Chairperson** recalled that one of the basic principles embodied in the Programme of Action for the Least Developed Countries (LDCs) for the 1990s was that of shared responsibility and a strengthened partnership for the growth and development of those countries. While much remained to be done to reverse the marginalization of LDCs, the Third United Nations Conference on the Least Developed Countries should translate awareness of their special problems into concrete results.

182. *The Least Developed Countries 1998 Report* provided an excellent and comprehensive assessment of the socio-economic situation of LDCs and international support measures, particularly official development assistance (ODA) and debt relief. Despite the immense challenges facing LDCs, it was encouraging to note that as a group they had been able to maintain their recent improved performance. The decline in resource flows to LDCs had to be reversed, as the availability of adequate external financing was critical for growth and development in LDCs. A decisive reduction was needed in LDCs' debt stock and debt service obligations; the Heavily Indebted Poor Countries (HIPCs) initiative was a step in the right direction. The international community's financial support for the Asian economies in crisis contrasted sharply with its hesitant response to the debt overhang and decline in real aid flows which continued to limit development prospects in LDCs.

183. Strengthening LDCs' capacity to participate in international trade and the multilateral trading system was an important precondition for their integration into the world economy. At the same time, the international community had an obligation to tackle unfinished business from former trade rounds and should proceed without delay to deal with those export products of particular interest to LDCs. Improved, predictable access to the markets of developed and developing countries would become even more crucial once LDCs had strengthened their own supply capabilities.

184. He informed the Board that the European Union had expressed its readiness to host the Third United Nations Conference on the Least Developed Countries in the first semester of the year 2001.

185. The **Deputy Secretary-General of UNCTAD** highlighted the major developments in LDCs in 1997. He emphasized that strengthening LDCs' capacity to participate in the multilateral trading system, including through accession to the World Trade Organization (WTO) by those LDCs which were not members, should be an important part of the international community's efforts to help them to become integrated in the world economy. To that end, the eligibility of all acceding LDCs for all provisions relating to special and differential treatment could be unconditionally recognized by WTO members. LDCs could also be allowed a "fast-track" approach to bilateral negotiations on market access in goods and services, whereby WTO members would keep their tariff and services requests to a minimum. There was also an urgent need for technical assistance provided to LDCs by UNCTAD and other bodies to be increased.

186. There was substantial scope for further improvements in market access for agricultural and industrial products of export interest to LDCs. Some of the LDCs' most important exports continued to face barriers in the major markets in the form of significant tariffs, including peak rates. The full implementation of the Action Plan for LDCs adopted at the first WTO Ministerial Conference was an urgent priority. As weak trading partners, LDCs faced a considerable handicap in a multilateral trading system based mainly on reciprocity. Therefore, it was imperative that an effective system of special provisions for them should be made an integral part of the General Agreement on Tariffs and Trade (GATT)/WTO framework.

187. The Third United Nations Conference on the Least Developed Countries would be a global event and should be geared towards achieving practical and measurable outcomes. Collaboration with other organizations and agencies of the United Nations system would be an important element in the preparatory process. He also anticipated a much greater involvement by civil society in the preparations and at the Conference itself.

188. The spokesperson for the **Group of 77 and China** (Costa Rica) commended the secretariat for the wealth of information and excellent analysis in the 1998 *Report*. He said that the turmoil of financial markets had caused an economic crisis, the extent of which was unprecedented. The cost of the crisis, if it became protracted, could be high for LDCs. The overall improvements in the economic performance of LDCs in the recent past had mainly been achieved by putting in place sound macroeconomic policy reforms. However, that performance had been achieved against a background of declining ODA, a heavy debt burden, accumulated arrears, low levels of foreign direct investment (FDI), limited access to foreign private financing and the generally limited participation of LDCs in WTO. Corrective measures were necessary to address those problems.

189. Owing to their lack of vital skills and their institutional weaknesses, LDCs had thus far not been able to take advantage of the opportunities provided by the multilateral trading system. LDCs should be adequately prepared for negotiations on the "built-in agenda" and "new issues". In that context, he requested the UNCTAD secretariat to study the possible impact of new issues on LDCs' economies.

190. He welcomed the European Union's offer to host the Third United Nations Conference on the Least Developed Countries. The offer reflected the solidarity of the European Union and its member States with LDCs. The Conference would be an opportunity to take a comprehensive look at the overall question of the development of LDCs; the preparatory process should draw on the lessons of the implementation of the Programme of Action and should fully involve non-governmental actors.

191. The representative of **Austria**, speaking on behalf of the **European Union**, recalled the European Union's commitment to assist LDCs in their efforts to become integrated in the world economy. She shared the concerns expressed in the 1998 *Report* about the fragility of the economic recovery in LDCs. Although they had turned in an improved economic performance in 1997, despite the Asian crisis, the risk of their increased marginalization was still real and threatened the most vulnerable populations in LDCs.

192. The European Union was by far the largest market for LDCs' exports, and granted duty-free access to its market for 99 per cent of its imports from the poorest countries. Moreover, it had introduced Lomé-equivalent market access treatment for those LDCs which were not members of the Lomé Convention, and had simplified rules of origin.

193. Most LDCs had a limited capacity to increase their exports substantially, owing to complex supply constraints such as inadequate infrastructure and human resources. Domestic policies had a crucial role to play in alleviating those constraints: among the most important policies were good governance, investment in education and training, upgrading of the physical infrastructure and support for the private sector. The integration of developing countries into the global economy required international support in the form of technical assistance focused on education, infrastructure and the institutional framework.

194. The spokesperson for the **least developed countries** (Bangladesh) commended the UNCTAD secretariat for the 1998 *Report*. The universally recognized widespread poverty and human deprivation in LDCs had resulted in some initiatives by the international community, but those initiatives seemed not to have been undertaken with the seriousness they deserved. Similarly, the market access pledges given by a number of countries at the High-level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development remained mere pledges and no workable programme for their implementation had been announced so far. The European Union had increased market access facilities under its Generalized System of Preferences (GSP) and expanded Lomé provisions, but the latter had yet to be finalized. He looked forward to the convening of round tables as part of the follow-up to the High-level Meeting, but feared that more exciting events were preoccupying the intergovernmental organizations.

195. ODA, the mainstay of development financing, had been dwindling steadily in recent years despite agreements in a number of resolutions of the General Assembly of the United Nations to raise ODA to 1 per cent of gross domestic product (GDP). Only a handful of Nordic countries and the Netherlands had raised the level of their ODA to the targets proposed by the United Nations. Against that background the development of infrastructure in LDCs in critical socio-economic fields such as poverty alleviation or literacy had slowed down considerably as LDCs' Governments increasingly found themselves suffering serious shortfalls in revenue following obligatory tariff cutbacks in the post-Uruguay Round multilateral trading system. While liberalization had been obligatory under the multilateral

trading system, special measures for the developing countries had been left to the whims of individual countries.

196. He called upon the members of the international community to fulfil their commitments on debt cancellation, increased ODA, immediate market access for LDCs' products, the removal of all protectionist measures affecting LDCs' products, increased technical assistance and technology transfer through implementation of the Integrated Framework for Trade-Related Technical Assistance, and the implementation of all special and differential measures agreed by the signatories to the Marrakesh Agreement Establishing the World Trade Organization.

197. He thanked the European Union for its offer to host the Third United Nations Conference on the Least Developed Countries, and expressed the hope that the Conference would lead to tangible benefits for the poor countries in the world.

198. The spokesperson for the **African Group** (Zambia) recalled that ministers from LDCs, at their most recent annual meeting, had proposed that the Third United Nations Conference on the Least Developed Countries should review the implementation of international support measures during the 1990s, especially in the areas of ODA, debt, investment and trade. Ministers had also called upon all development partners to move quickly to increase substantially the level of financial assistance to LDCs. He welcomed the generous offer by the European Union to host the Conference and requested that adequate resources should be made available to LDCs by development partners and United Nations agencies to ensure the Conference was successful.

199. The 1998 *Report* was correct to point out that when market forces failed to deliver prosperity, the intervention of Governments became a necessity, and he welcomed the signs of a growing readiness on the part of development partners and other international institutions to adopt a broader vision of development which encompassed more elements than just market forces.

200. The GSP and other systems of trading preferences were a vital but under-utilized trade tool for LDCs. He called on the UNCTAD secretariat to assist all LDCs in making better use of the scheme, and called on LDCs' trading partners to reject the new principle of "required reciprocity", which was contrary to the spirit of trade preferences.

201. The full participation of the private sector in the economic activities of LDCs was an important factor in raising both domestic and foreign investment, but, unfortunately, the private sector was weak and inexperienced in most LDCs. He reiterated the call made by LDCs' ministers for the cancellation of the outstanding debt owed by LDCs, and called upon the international community to explore ways to ensure the expeditious implementation of the HIPC initiative. He also called for the full implementation of the special and differential measures in favour of LDCs contained in multilateral trade agreements, and for action to follow up the 1997 High-level Meeting. Without targeted technical assistance aimed at capacity-building in LDCs, without market-opening measures on their side, and without proper acknowledgement of the obstacles preventing LDCs from participating fully in the information society and from fully implementing the Uruguay Round agreements, the path into the twenty-first century would not lead LDCs forward, but back into the past.

202. The spokesperson for the **Asian Group and China** (India) commended the UNCTAD secretariat for the excellent quality of the 1998 *Report* and expressed concern over the impact of the financial crisis on the future growth of Asian LDCs. He stressed that unless the downward trend in ODA to LDCs was reversed and the agreed targets met, there was little hope of a recovery. In order to enable LDCs to seize the opportunities provided by the multilateral trading system, the question of special and differential measures in their favour had to be addressed more seriously than it was in best endeavour clauses. UNCTAD could make an important contribution by assisting LDCs in acceding to WTO on terms consistent with their needs, both as individual countries and as a group.

203. The success of the Third United Nations Conference on the Least Developed Countries would depend on thorough preparation which took into account the development priorities articulated by the LDCs themselves and which drew on the experience gained from the implementation of the Programme of Action. The UNCTAD secretariat would have to ensure the active participation in preparations for the Conference of all relevant United Nations organizations and agencies. Non-governmental actors should also be fully involved in the preparatory process. The success of the Conference very much depended on the effective participation of LDCs in the Conference and in its preparatory process. UNCTAD had an important role to play in the implementation of the outcome of the High-level Meeting, for which more resources were needed. He expressed satisfaction with the contributions made to the Trust Fund for Least Developed Countries.

204. The representative of **Ethiopia** said it was important that the preparations for UNCTAD X should complement those for the Third United Nations Conference on the Least Developed Countries in order to reverse the deteriorating socio-economic conditions in LDCs. He fully endorsed the conclusions and recommendations contained in the 1998 *Report*. A reversal in the declining trend in ODA and more determined efforts by development partners to reorient aid programmes towards LDCs would enhance economic recovery and ensure long-term development in those countries. He reiterated the appeal by the LDCs' ministers to all creditor countries to cancel all outstanding debt owed by LDCs. He gave some examples of various new special trade measures in favour of LDCs which had been taken by development partners in the area of market access. However, tariff escalation persisted and peak tariffs continued to be levied on a large number of agricultural and industrial products of export interest to LDCs. The emergence of new non-trade conditionalities had seriously constrained the ability of LDCs to benefit from favourable market access conditions. Deficiencies on the supply side were among the many variables accounting for the low utilization of special trade preferences by LDCs.

205. In Ethiopia, sound macroeconomic reform and trade liberalization, together with major political transformations, had led to great improvements in the country's economic indicators. However, there was no room for complacency in combating poverty and underdevelopment. As LDCs were unable to insulate themselves from external economic shocks, they needed adequate and predictable resource flows from their development partners to accompany their own efforts to reform national policies.

206. The spokesperson for the **Latin American and Caribbean Group** (Haiti) observed that the number of LDCs had increased significantly as globalization proceeded, and might increase further if the problems of structurally weak economies were not considered together with the problems of LDCs. He welcomed the Cuban

initiative to mobilize international solidarity on behalf of Haiti, whose share of world trade had fallen dramatically to minuscule levels.

207. Integration in the multilateral trading system was a difficult process for LDCs and other economically vulnerable countries. Membership of WTO could help them to defend their economic interests, but the bargaining power of most LDCs was weak, owing to serious limitations in their human and financial resources. UNCTAD was better qualified than any other international organization to deliver trade-related technical assistance to LDCs and countries with structurally weak economies. It was regrettable that the amount spent on technical cooperation in the Latin American and Caribbean region had fallen, in both absolute and relative terms. UNCTAD could help LDCs and countries with weak economies to confront the problems they faced in the areas of accession to WTO, the implementation of the Uruguay Round agreements, trade in services and trade and the environment, by increasing the number of experts in those countries and by enabling those countries to take greater advantage of the Trust Fund.

208. Finally, he thanked the UNCTAD secretariat for its assistance to some LDCs, including Haiti, in the follow-up to the High-level Meeting.

209. The representative of **Madagascar** commended the 1998 *Report* for its discussion of crucial LDC issues such as production, market access, FDI and vulnerability to natural disasters. The international community, in adopting the Programme of Action, had committed itself to taking urgent and effective measures, on the basis of shared responsibility and increased partnership, to reverse the deterioration in the economic situation of LDCs and to revitalize their growth and development. Those measures included commitments relating to ODA and market access, and several possibilities had been envisaged for improving the GSP.

210. It was important that LDCs should adopt appropriate trade and investment policies. Most of them depended largely on the production and export of primary commodities, and needed to seek the best possible benefits from their dependence on external markets, otherwise they would suffer increased marginalization. Unfortunately, there had been a decline in LDCs' share of world trade. Many LDCs, including Madagascar, were hampered in their efforts to benefit more from the multilateral trading system by weaknesses in their production capacity and the constraints on market access for their goods and services. He regretted the decline in LDCs' share of ODA and the modest contribution of FDI to their development, and urged the relevant international organizations, and UNCTAD in particular, to intensify their technical cooperation efforts in favour of LDCs. He suggested that the preparatory process for the Third United Nations Conference on the Least Developed Countries should involve the convening of an intergovernmental committee, as well as one or two expert group meetings.

211. The representative of **Norway** noted that the continued improved economic performance of LDCs had been maintained in 1997, but expressed concern that LDCs still had only a very small share of the world's production and trade. The effects of the global financial crisis, such as falling commodity prices and low investment rates, combined with high indebtedness and a decrease in ODA, presented a darker picture. Sound macroeconomic policies, good governance, political stability, respect for human rights and transparency were indispensable in the pursuit of sustainable development and growth.

212. LDCs relied more heavily than the rest of the developing world on development assistance. The Norwegian Government was therefore working on a plan to increase development assistance. Special emphasis would be placed on increased cooperation with developing countries on poverty alleviation, improved delivery of social services, debt reduction and stimulating the private sector. Norway had also launched a comprehensive national debt relief strategy to reduce the debt burden of 22 of the poorest and most heavily indebted countries.

213. Given that a central feature of the present globalization process was the growing prominence of the private sector, LDCs and donor agencies should cooperate with the private sector to create a climate that attracted private investment. The Norwegian Government was currently finalizing a strategy to stimulate the private sector in developing countries, with a view to achieving greater coherence between the action of multilateral institutions such as the United Nations and WTO and its bilateral efforts in development cooperation. Within WTO, Norway would continue to give high priority to the concerns of the poorest countries, and had already taken specific measures to stimulate imports from LDCs. With the exception of grain, flour and foodstuffs, all goods from LDCs could enter the Norwegian market without tariffs and quotas.

214. The representative of the **Sudan** commended the secretariat for its excellent and useful analysis and policy recommendations in the 1998 *Report*, and noted with regret that the external debt of LDCs continued to impede their efforts to mobilize more resources, thus negatively affecting their capacity to achieve growth, and that ODA flows to LDCs had continued to decline. The severe shortage of external finance in LDCs, as a result of declining ODA and negligible FDI flows, had to be seen against the background of a very bleak debt picture. There was an urgent need to address the problem of the debt overhang in a more decisive manner.

215. As the participation of LDCs in WTO and the multilateral trading system remained very limited and largely passive, concrete measures should be taken by the international community, especially the major trading and economic powers, to reverse the marginalization of LDCs and to facilitate their participation in the global economy. Every possible assistance should be provided to speed up the accession to WTO of LDCs currently seeking membership of that organization. He expressed appreciation for the technical assistance that UNCTAD had provided to the Sudan in the past two years, including through its Integrated Country Programme, which had been started earlier in 1998. He also welcomed the European Union's initiative to host the Third United Nations Conference on the Least Developed Countries, which was evidence of a genuine mutual partnership in development.

216. The representative of **Egypt** said that, despite their improved economic performance, LDCs still faced challenges which might undermine the progress achieved. Their economies continued to be affected by exogenous shocks, particularly changes in international policies, instability in the prices of their exports (especially commodities), natural disasters and civil strife. LDCs' improved economic performance had not been enough to reverse the continued decline in their share of international production and trade. The insignificant flows of FDI to LDCs and their low domestic saving rates also limited their ability to sustain their recent economic performance. The situation was further aggravated by the external debt of LDCs and the decline in ODA flows. The focus of the 1998 *Report* on the multilateral trading system and how it affected opportunities and constraints for LDCs attempting to enhance their participation in the world

economy was a good choice from the point of view of both substance and timing. A truly multilateral trading system required the participation of all parties on an equal footing and should take into consideration the special requirements of parties with limited capabilities. It was vital that the international community should step up its efforts to provide assistance to LDCs in the areas of capacity-building, infrastructure and human resource development, to enable those countries to participate effectively in the international economy and in establishing the rules of the multilateral trading system. Finally, he said that Egypt had offered, during the High-level Meeting, further market access and trade opportunities to LDCs, and had sent the necessary notification to WTO, UNCTAD and the International Trade Centre UNCTAD/WTO (ITC).

217. The representative of **Yemen** said that all LDCs were facing wide-ranging problems arising from a combination of different domestic and external factors such as economic imbalances, unsatisfactory performance of production sectors, declines in their share of world trade and a decrease in the flow of FDI. In the case of Yemen, such factors had led to a reduced ability to finance development projects, slow economic growth, inflation and depreciation of the national currency. To remedy economic imbalances, the Government had adopted a development planning strategy covering the period 1996-2000. That strategy was based on market mechanisms, the promotion of investment, the privatization of infrastructure projects, the liberalization of domestic and external trade, restoring the macroeconomic balance and combating inflation. The Government of Yemen was undertaking a package of measures designed to attract FDI, which was its most important development resource. The measures included the establishment of an investment authority, legislation on investment and the establishment of a free trade zone. It was important that UNCTAD, which was the focal point at the global level for the monitoring, follow-up and review of the implementation of the Programme of Action, should be provided with the requisite capacity and resources to monitor the conclusions and recommendations relating to LDCs adopted at the major global conferences, and deal with LDC-related issues in a comprehensive and effective manner.

218. The representative of **Poland** said that his Government was making efforts to reduce tariffs on imports from developing countries in general and LDCs in particular. As a result of that policy, imports from LDCs were expected to reach US$ 150 million in 1998. The Government had also taken steps to increase FDI flows to LDCs in the sectors of mining, construction and engineering. There was a need to address the issue of the debt burden of LDCs through debt-restructuring; his Government intended to contribute in an effective way to the HIPC initiative. It also intended to provide a modest amount of ODA to LDCs in view of Poland's new status as an member of the Organisation for Economic Co-operation and Development (OECD). Technical cooperation among developing countries was an effective instrument for sharing experience not only among developing countries but also among developing countries and the countries of Eastern and Central Europe.

219. The representative of **Switzerland** said that the 1998 *Report* provided an honest and frank analysis of LDC issues. The *Report* was right to emphasize the fragility of the LDCs' economic recovery, given the man-made disasters that had affected them over the previous 25 years. He stressed the importance of avoiding the possible negative social effects of trade liberalization and globalization, and the importance of taking into consideration the possible negative side-effects of macroeconomic and structural adjustment measures on the most vulnerable populations in LDCs.

220. He took issue with the *Report* on several points. First, there was no evidence that pressure was being put on developing countries to assume obligations beyond their commitments in WTO or not to make full use of transitional periods or derogations. Second, opening up market access was a two-way process; developed countries had their part to play - for example, Switzerland offered quota-free, tariff-free access for all textiles from all LDCs - but LDCs would also gain access to technology and know-how by opening up their own markets. Third, he could not accept that the Understanding on Rules and Procedures Governing the Settlement of Disputes created a serious imbalance in the exercise of rights and obligations. Fourth, it should be emphasized that competition was a crucial element of an enabling economic environment and, fifth, it should not be forgotten that accession to WTO required a commitment to WTO rules and disciplines. Finally, the *Report* did not reflect the outcome of the High-level Meeting or the efforts undertaken by UNCTAD, WTO, ITC and bilateral agencies to improve LDCs' participation in the multilateral trading system.

221. He urged LDCs to participate more actively in the multilateral trading system. In order to help them to obtain better information about the advantages of the multilateral trading system, the Swiss Government had founded the Geneva-based Agency for International Trade Information and Cooperation.

222. The representative of **China** commended the UNCTAD secretariat for the 1998 *Report*. The improved economic situation of LDCs was being offset by adverse changes in the external economic environment, falling commodity prices, declining ODA and the debt burden, and the Asian financial crisis had put renewed pressure on LDCs. He called on the international community to take urgent measures to address all those issues. Renewed efforts were required to achieve the objectives laid down in the Programme of Action. LDCs lacked the capability and resources to participate effectively in the multilateral trading system and were faced with a number of challenges associated with membership of WTO. He expressed concern that the forthcoming negotiations on trade in services and trade and the environment might put LDCs at a disadvantage. Moreover, as a result of their low level of participation in the international trading system, LDCs had not been able to benefit from the opportunities created in the field of trade and services as a result of the Uruguay Round agreements. LDCs needed help in acceding to WTO, if they were not already members, and in integrating themselves into the multilateral trading system. Assistance could be provided in the form of finance, technology transfer and human resource development.

223. He thanked the European Union for its offer to host the Third United Nations Conference on the Least Developed Countries in 2001. For its part, the Chinese Government provided bilateral and multilateral assistance to LDCs and had contributed US$ 100,000 to the Trust Fund for Least Developed Countries.

224. The representative of the **European Community** said that the analysis in the second part of the 1998 *Report*, on trade, investment and the multilateral trading system, was useful. The European Community, like UNCTAD, favoured a new round of multilateral trade negotiations. She regretted that the *Report* sometimes did not make a clear distinction between LDCs and other developing countries, thereby failing to give a full justification for the notion of special and differential treatment for LDCs. A clearer distinction could also have been made between the work of UNCTAD and that of WTO. The objective of the European Community remained to facilitate a broader participation of developing countries in the multilateral trading system.

225. The representative of the **United Republic of Tanzania** welcomed the appointment of the Special Coordinator for the Least Developed, Landlocked and Island Developing Countries and the offer by the European Union to host the Third United Nations Conference on the Least Developed Countries. The Conference would be an opportunity for the international community to enhance its commitment to assist LDCs in profitably integrating into the global trading system. The publication of the 1998 *Report*, which discussed themes of critical importance to LDCs, was timely, since LDCs were preparing for the third WTO Ministerial Conference, and it provided a useful guide for forthcoming multilateral negotiations. The *Report* was eloquent in highlighting the phenomenon of aid diversion from LDCs as a result of the Asian financial crisis; that issue had not received the attention it deserved. It was to be hoped that the international community and UNCTAD would undertake concrete measures to follow up the recommendations in the *Report*.

226. The representative of **Uganda** commended the secretariat of UNCTAD for its comprehensive and thought-provoking 1998 *Report*. Significant developments had taken place in LDCs, but the overall improvement in their economic performance was not strong enough to arrest the decline of their share in the world economy and international trade. Many African LDCs faced real dangers as a result of damage caused by El Niño. Eastern Africa had been one of the regions most affected by floods caused by heavy rainfall which had damaged agriculture and transport infrastructure. He emphasized the increasingly important role of ODA when FDI flows bypassed LDCs. It was regrettable that aggregate ODA flows to LDCs had dropped sharply. He commended the developed countries which had achieved the ODA targets proposed by the United Nations. He welcomed the HIPC initiative, from which Uganda was benefiting, although it should be made more flexible to enable more countries to benefit from it. He welcomed the emphasis in the *Report* on promoting growth and the free exchange of goods and services, and believed that the multilateral trading system should be further developed through strengthened partnership. He also welcomed UNCTAD's technical cooperation activities in LDCs, as well as the European Union's offer to host the Third United Nations Conference on the Least Developed Countries.

227. The representative of **South Africa** said that there had been a continuing decline in the net flow of resources to LDCs and that the LDCs as a group had not benefited from the overall increase in FDI to developing countries. The present financial crisis, which afflicted most economies, might entail a further reduction in ODA to LDCs, which was already at unacceptably low levels. Private investment could not replace ODA, and the decline in resource transfers to LDCs would greatly constrain the development prospects of their economies. He welcomed the willingness of the developed countries and some international institutions to adopt a broader and more holistic approach to the question of the development of LDCs. South Africa was actively involved in ensuring that resources flowed to LDCs in its region, through the introduction of its "spatial development programmes". However, the debt burden continued to hamper the development efforts of many LDCs. He supported the call for the appointment of an independent group of experts to look into the sustainability of the debt of LDCs. The HIPC initiative should be refined to enable more LDCs to qualify.

228. The long-term viability of the multilateral trading system depended on both the strong and the weak having an effective voice in the management and design of the system. UNCTAD should provide LDCs with the analysis and technical assistance that would enable them to derive the maximum benefits from trade liberalization. LDCs faced unacceptable barriers and restrictions for their

exports; they should be granted duty-free market access, as called for by the Non-Aligned Movement. In preparation for the third WTO Ministerial Conference in 1999, consideration should be given to a programme of action in favour of small economies to facilitate their integration into the world trading system, and the ability of LDCs to join WTO should be strengthened, while leaving them room to manoeuvre in their development efforts. It was imperative that LDCs should not be further marginalized, for the sake of stability, security, democracy and peace.

229. The representative of **Japan** said that the 1998 *Report* contained some thought-provoking suggestions, based on the premise that developed economies should improve their market access conditions so that LDCs could benefit more from the Uruguay Round agreements, and so as to avoid a further marginalization of LDCs' economies. Japan was committed to continuing to improve market access conditions for products exported by LDCs on as broad and liberal a basis as possible. However, the *Report* focused too much on LDCs' problems of market access in relation to the developed countries' markets, illustrating them in a North-South context. Yet, according to a survey of LDCs' major export markets carried out by the WTO secretariat, the tariff rates for LDCs' products in developing countries were on average eight times higher than those in developed countries. Given the increasing importance of South-South trade, the market access problems of developing countries needed to be looked at in a wider perspective. Moreover, the *Report* argued that various new preferential measures should be allowed for LDCs, such as domestic content requirement provisions under the Agreement on Trade-Related Investment Measures, or full flexibility in the choice of measures for import controls in the balance-of-payments provisions. Such measures would have trade-distorting effects, and would weaken LDCs' competitiveness and result in their further marginalization. Although preferential treatment remained essential for improving the trading opportunities of LDCs, it should be viewed as transitional in nature. In the long term, LDCs' best interests were more likely to be served by guaranteed, non-discriminatory and open access to their trading partners. A number of issues in the *Report* were not actually related to the implementation of the Uruguay Round agreements, but related to new rule-making with regard to special and differential provisions for LDCs. His Government was willing to discuss those new issues in a positive manner in the forthcoming round of negotiations.

230. The representative of the **United States of America** said that all industrial nations were directly affected by the persistent poverty in LDCs. The United States' strategy for assistance to LDCs was premised on the idea that healthy market economies offered the best prospects for growth. The United States Agency for International Development and the United States Trade Representative had responsibility for policies regarding the development of local markets and exports. He welcomed the progress made under the HIPC initiative to reduce the debt burdens of HIPCs, as well as the decision to extend the initial two-year qualifying period to allow more countries to meet the initiative's entry requirements. The international financial institutions should develop mechanisms to provide interim relief to help ease LDCs' cash flow problems.

231. The United States had a good record in providing liberal market access. Average duties were below 4 per cent, and even lower for goods covered by various tariff preference schemes. Textile quotas were being phased out in accordance with commitments under the Agreement on Textiles and Clothing. The real problem for LDCs was not market access, but their inability to exploit the existing access opportunities profitably. The liberalization of their own market access could play an important role in enhancing LDCs' export competitiveness, since a closed

domestic market for services could operate as a serious drag on the development of competitive exports. He noted, for example, that sub-Saharan African countries had the highest tariff rates in the world. LDCs had a substantial interest in multilateral efforts to liberalize trade in agriculture and services, and should not introduce trade barriers to electronic commerce.

232. He emphasized the United States' commitment to helping LDCs to take advantage of trading opportunities, and regretted that market access provided under the United States GSP schemes was dominated by a handful of countries. Those countries should ensure that there were economic spill-over effects for their less competitive LDC neighbours via their own market access liberalization. The United States had added 1,743 tariff lines to its GSP scheme solely for LDCs in 1997, but no LDC beneficiary had sought to participate in public consultations on the products to be included in the initiative. He therefore urged the LDCs to champion their own interests more actively. UNCTAD had an important role to play in strengthening the capacity of LDCs to participate in the multilateral trading system; it should better integrate analysis and technical assistance throughout its programmes and increase its efforts relating to the follow-up to the High-level Meeting.

233. The representative of the **Republic of Korea** noted that, in 1997, LDCs had sustained their recent economic recovery despite adverse weather conditions, declines in commodity prices, continued stagnation of aid flows and external debt problems. However, the decline in the relative share of LDCs in world production and trade was a cause for concern. As the financial crisis in Asia was already having negative repercussions on LDCs' exports as well as on FDI flows to LDCs, the latter would continue to face difficulties in tackling development challenges unless they received solid support from the international community.

234. A number of donor countries and institutions had maintained their aid programmes for LDCs, while others had increased their aid allocations to those countries as compared with 1995. His Government had steadily increased its ODA since 1987; in 1997, it had increased ODA by approximately 17 per cent as compared with 1996, to US$ 185 million, although the economic crisis had forced it to reduce part of the budget available for ODA. As a country which had achieved economic development with the support of the international community over a period of several decades, the Republic of Korea would seek to increase its ODA, including the portion of ODA directed towards LDCs, when its economy was back on track.

235. The international community should make concerted efforts to prevent LDCs from being further marginalized in the world economy and the multilateral trading system. UNCTAD's continued endeavour in that field was of primordial importance for bringing LDCs into the mainstream of the world economy. Finally, he welcomed the European Union's offer to host the Third United Nations Conference for the Least Developed Countries in 2001.

236. The representative of **Cuba** commended the secretariat for the 1998 *Report* and expressed his disappointment that the international community had not been able to mitigate the increasing poverty in LDCs and that ODA to LDCs was declining. In that context, the problems faced by structurally weak economies which were in danger of joining the group of LDCs in the near future had to be taken into consideration.

237. The debt situation in LDCs was critical and continued to restrict their economic development; the various debt-relief initiatives needed to be evaluated. The creation of an economic infrastructure and the development of human resources in LDCs were critical to the development efforts of LDCs, and needed the support of the international community.

238. He was in favour of the rapid accession to WTO of those LDCs seeking membership of that organization; the technical assistance of UNCTAD could facilitate that process. To promote the economic development of LDCs, Cuba advocated that LDCs' debt should be written off; those countries which were benefiting from the wealth of resources in poor countries should take steps to eliminate the debt burden of LDCs.

Informal meetings

239. The Sessional Committee pursued its consideration of agenda item 5 in informal meetings.

Closing statements

240. The **Chairman** said the Committee had shown an impressive unity of purpose in carrying out the two tasks allocated to it under agenda item 5. LDCs had expressed their determination to continue implementing their wide-ranging reform efforts, and their development partners had reaffirmed their commitment to supporting LDCs in those efforts. The offer by the European Union to host the Third United Nations Conference on the Least Developed Countries had been welcomed by all, and there was agreement that the preparatory process for the Conference needed to be very thorough and should complement the preparations for UNCTAD X.

241. The representative of **Uganda** said that, with regard to paragraph 10 of decision 453 (XLV), the consideration of all other options should also include the option of financing the participation of LDC government representatives from regular budget resources.

Action by the Board

242. Acting on the recommendation of the Sessional Committee, the Board, at its 900th plenary meeting, on 23 October 1998, adopted agreed conclusions 452 (XLV) and decision 453 (XLV). (For the texts of the agreed conclusions and decision, see TD/B/45/13(Vol.I), section D).

Chapter IV

UNCTAD'S CONTRIBUTION TO THE IMPLEMENTATION OF THE UNITED NATIONS NEW AGENDA FOR THE DEVELOPMENT OF AFRICA IN THE 1990s: PROSPECTS FOR AGRICULTURE, TRADE AND INDUSTRIALIZATION

(Agenda item 6)

243. For its consideration of agenda item 6, the Board had before it the following documentation:

Trade and Development Report, 1998 (Part Two)(UNCTAD/TDR/1998 and Overview)

Consideration in Sessional Committee II

244. The **Secretary-General of UNCTAD** conveyed his appreciation to the Government of Mauritius for the support it had given to the UNCTAD International Conference on African Development in a Comparative Perspective, held in Mauritius on 24 and 25 September 1998. He also thanked the Japanese Government for its generous funding of the research project that had led to the Conference, and drew attention to the fact that Africa's development was currently also on the agenda of the United Nations General Assembly.

245. One issue that deserved particular attention was the African debt problem. UNCTAD's research had made it clear that the debt burden was the single most important obstacle to growth and development in Africa. This problem had taken on additional importance in the recent past. As a result of the Asian crisis, emerging economies received practically no private financial flows at present. Since official development assistance was stagnant and savings rates were low, debt relief had come to be the only source of funding for badly needed additional investment. The Heavily Indebted Poor Countries (HIPC) Initiative was an important step forward, but because of the Asian crisis the conditions in the world economy had changed since it had been launched, and debt sustainability had to be reassessed in the light of these new conditions, as suggested in the *Trade and Development Report*, 1998. A solution to the debt crisis in Africa was not a problem of technical feasibility but one of political will.

246. The **UNCTAD Coordinator for Africa** summarized the main research findings and policy proposals contained in Part Two of the *Trade and Development Report*, 1998. He said that the current economic outlook for Africa was not encouraging, as the region was suffering from the effects of the international financial crisis, reduced export demand and falling commodity prices. Moreover, there was a renewed escalation of civil strife and armed conflict in the Horn and Central Africa.

247. Africa needed much higher levels of savings and investment. Without debt relief, it was unable to invest more in human and physical infrastructure or to renew its capital stock. Against this background, the eligibility of countries and the adequacy and speed of debt relief under the HIPC Initiative were insufficient. An independent panel of experts appointed jointly by creditors and debtors should be established to undertake an assessment of debt sustainability in African countries, with a commitment by creditors to implement the recommendations arising from that assessment.

248. The link between structural adjustment programmes and economic performance had been very weak. For market-based agricultural development in Africa to succeed, the profitability of investment had to be increased, the business environment had to be stabilized, and technical and financial constraints on investment had to be removed. Moreover, public investment programmes were an essential complement to private investment in agriculture and other sectors.

249. While Africa's immediate export potential was in the primary sector, there were considerable unexploited advantages in manufacturing in a number of countries. Diversification was necessary in order to stabilize export earnings, but a dynamic investment-export nexus had also to be established. Foreign direct investment could help in the early stages of diversification, but it could not replace domestic investment and public sector support.

250. Although the WTO rules had reduced policy options, selective strategies could still be adopted in Africa. The Agreement on Subsidies and Countervailing Measures, in particular, contained provisions for differential and more favourable treatment for poorer countries. Also, there remained considerable potential for expansion of intraregional trade, but the problems of high transport costs, political barriers to trade, political instability and factors influencing the general business environment had to be addressed. With regard to African exporters' access to markets in the industrialized countries, there were still major obstacles in textiles, clothing, footwear, processed food and certain agricultural products.

251. Institution-building, the creation of a committed entrepreneurial class and the reform of public institutions were important challenges for African countries, which could be met only through full ownership of policies and reforms, and a broad-based national consensus.

252. The representative of **Algeria** said that Africa's situation with regard to absolute poverty, famine and sickness continued to be alarming. Its external indebtedness constituted one of the most critical elements in North-South relations. Rescheduling and conversion of debt, as well as partial, though inconsiderable, debt forgiveness for the poorest countries, had reduced both the impact of the debt problem on the international financial system and the debt service ratio at the global level, but the stock of external debt continued to grow. Countries such as those in Latin America, whose external debt had been reduced through complex measures which would be difficult to apply in other regions, had re-established their access to international finance. By contrast, the external debt situation of African countries continued to have disastrous effects because their economies had been virtually decapitalized owing to the accumulated effects of debt servicing, reduced official development assistance and eroding export earnings. Most of these countries were not in a position to reimburse their debt. Substantial debt relief was therefore of crucial importance for them. Experts in the non-aligned countries had estimated the required debt stock reduction at 70 per cent.

253. The fact that the multilateral debt of African countries was growing and that the debt crisis had been perpetuated underlined the need for political measures at the global level which were geared to growth and development in a more stable and secure international environment. A debt strategy for Africa required two elements. First, those countries for which debt rescheduling was no longer feasible needed a significant debt stock reduction to revive economic growth. Second, the debt service of a number of other African countries had to be adjusted

to the requirements of economic and structural reforms in order to ensure at least a minimum of growth.

254. The availability of sufficient development finance also depended on African countries' stable, sustainable and guaranteed access, at remunerative prices, to the developed country markets. Despite the Uruguay Round Agreements, protectionist and discriminatory policies were being maintained and African countries had not been offered any serious guarantee regarding access to developed country markets. The possible introduction of new forms of conditionality and new trade restrictions linked to environmental, social and human rights issues would tend to change international competitiveness to the detriment of African countries. For trade to become a factor fostering development, Africa had to ensure that the WTO brought into being a more open and transparent international trading system.

255. The representative of **Mauritius**, reporting on UNCTAD's International Conference on African Development in a Comparative Perspective, held in Mauritius on 24 and 25 September 1998, said that a wide range of issues ranging from agricultural development to the debt problem had been covered and the debate had been vigorous. There had been a consensus that the *Trade and Development Report*, 1998 could provide strategic guidance to African countries in formulating policies.

256. A rethinking of policy required a new synthesis rooted in pragmatism. While the leading role of the private sector in African economic growth was universally recognized, this did not mean that government did not have an important role to play in guiding the development process in the national interest. This was particularly necessary in view of the shallowness of markets in Africa. The critical issue was to determine the appropriate mix of public action and private initiative.

257. An important feature of the African economic landscape was variation in the circumstances of countries. It was nevertheless possible to identify some general policy recommendations at both the national and the international level. The Conference had expressed broad support for seven recommendations.

258. First, there was a need for a new approach to the debt problem in Africa. An independent assessment of debt sustainability had to be made, with a commitment by creditors to an immediate write-off of any debt which was found to be unpayable.

259. Second, there was a need for much greater understanding by African countries of the rights and obligations under WTO Agreements and of the issues at stake in future negotiations. In this regard, technical assistance by UNCTAD and other multilateral agencies should be expanded.

260. Third, virtuous interaction and greater economic integration among countries in the region, through trade, finance and investment, were beneficial. It was important that Governments, supported by international agencies, work for greater cooperation to facilitate such integration and to harmonize policies.

261. Fourth, there was a need to nourish and develop, through appropriate public policies, a dynamic indigenous entrepreneurial class and to promote domestic savings and investment.

262. Fifth, agriculture was of key importance in development. There was a need to generate private incentives as well as economic stability. Market forces needed to be supplemented by government action to overcome the institutional hiatus and infrastructural impediments hindering agricultural development. African Governments were facing difficulties in promoting certain types of agricultural production because of protectionist practices in major industrial countries.

263. Sixth, greater integration into the world trading system was the ultimate objective. To achieve this, there was a need for a gradual and differentiated approach to trade liberalization, designed to promote exports and investment, and tailored to domestic capabilities.

264. Seventh, there was a need to protect countries against international financial instability through appropriate measures to deter excessive short-term speculative flows and encourage long-term productive investment. The management of the exchange rate was a central element in a strategy of growth through export promotion, and large exchange rate fluctuations were to be avoided.

265. The representative of the **Organization of African Unity** (OAU) said that both the *Trade and Development Report* and the *Least Developed Countries Report* underscored the fragility of the recent recovery in Africa. Uncertainties resulted from factors such as floods and drought, declining aid flows and weakening commodity prices. The Asian crisis was likely to exert additional pressure on the latter, thereby squeezing the earnings of African exporters.

266. Economic reform in Africa had led to a more stable macroeconomic environment, but structural constraints and institutional limitations continued to be obstacles to sustained economic growth, increased foreign investment and the development of the domestic private sector. In this context, the limitations of the "Washington consensus" and its prescriptions on structural adjustment had become evident. It was disappointing that hardly any attention had been paid in either report to the position that the OAU had taken with regard to the limitations of structural adjustment programmes.

267. African countries continued to suffer from inadequate financial resources to support policy reform. Domestically, Governments had to adjust their expenditure to meet the requirements of stabilization programmes, and externally there had been a sharp fall in aggregate official development assistance flows, while private flows were not forthcoming. The external debt overhang continued to hamper growth and investment. The OAU welcomed the proposal in the *Trade and Development Report* for the creation of a group of independent experts to examine Africa's debt sustainability, as well as the proposal in the *Least Developed Countries Report* for greater involvement of LDCs in WTO. However, more emphasis should be given to issues related to negotiations for a post-Lomé IV Convention and its compatibility with WTO rules. UNCTAD should form partnerships with other multilateral organizations in order to influence the implementation of policy and programmes in Africa.

268. The spokesperson for the **Group of 77 and China** (Costa Rica) said that the economic situation in Africa remained critical, largely because of unfavourable external economic conditions. Part Two of the *Trade and Development Report*, 1998 touched upon several important issues related to growth and development in that region. Enabling Africa to return to a path of sustainable growth was a matter of concern to the international community as a whole. All countries had to have

access to the fruits of development and be fully integrated into the international trading and economic system. A vibrant and economically buoyant Africa would be a source of increased trade and represented a major potential for the world economy as a whole. The *Report* underlined correctly that the initial conditions in the Asian countries some decades ago had not been so different from those in Africa today.

269. The international community should provide support to Africa in order to consolidate the recent growth performance in the region, mainly by providing Africa with the financial basis required for a resumption of investment. In this context, the proposals for an independent analysis of the sustainability of African debt were most welcome, as one of the preconditions for higher levels of investment in Africa was the removal of the debt overhang.

270. Much could be gained from regional and subregional cooperation and trade in Africa, and there were also many untapped possibilities for interregional trade. In order to take full advantage of these possibilities, there was a need for institution- and capacity-building in African countries, which required the full support of the international community. Official development assistance remained an important source of financing in this context.

271. Access to the markets of industrialized countries for products of export interest to Africa continued to be a problem. African countries should make full use of the policy options available to them within the context of the WTO rules. This could help them achieve competitiveness at the international level.

272. The international community should increase support for Africa's own efforts at economic transformation and development through a combination of measures, including duty-free and guaranteed market access for goods of export interest to Africa, the promotion of foreign direct investment, debt reduction, aid restructuring and increased official development assistance.

273. The spokesperson for the **Latin American and Caribbean Group** (Brazil) said that Africa's economic performance caused the Latin American and Caribbean countries great concern. Only a few African countries had been able to sustain growth rates of about 6 per cent as set by the United Nations New Agenda for the Development of Africa in the 1990s. In 1997 the region's per capita income growth had been insufficient to maintain economic and social development.

274. Financial flows to Africa were only 3 per cent of the world total and lower than in the early 1980s. While a recovery in investment was the key to avoiding marginalization, many countries in the region were still plagued by high indebtedness and low investment. Most of the heavily indebted poor countries were in Africa, and the present reality was that increasing debt, combined with economic stagnation, proved that 10 years of structural adjustments were not sufficient to pave the way to sustainable economic growth.

275. The international financial crisis severely affected African commodities exports, and the devaluation of Asian currencies was causing a loss of competitiveness for African products. The impact of these factors, combined with unfavourable weather conditions and the heavy external debt, nullified the efforts of African countries to accelerate growth and better integrate into the world economy.

276. The UNCTAD initiative in favour of Africa and its progress report presented in document TD/B/EX(18)/2 were welcome, and it was desirable that UNCTAD should continue to receive adequate international support.

277. The spokesperson for the **African Group** (Morocco) thanked the secretariat for having devoted a major part of the *Trade and Development Report*, 1998 to Africa, as well as for the quality of the report. He said that after a period of solid economic performance in the mid-1990s, Africa's GDP growth in 1997 had been insufficient for sustainable long-term development. African exporters of commodities had been severely affected by the continuous deterioration of their terms of trade and by the continuing instability of commodity prices. This, combined with adverse weather conditions and the debt burden, had prevented macroeconomic reform, structural adjustment and liberalization efforts from having the desired effects. The uncertainty related to the Asian crisis represented an additional worry.

278. Africa's experience demonstrated that liberalization alone was not a sufficient condition for better economic performance. The liberalization of the agricultural sector had not brought about a marked improvement in export revenues, because of structural and institutional constraints. The international community could play an important role in dampening the adverse impact of exogenous shocks on the African economy. Many African countries were heavily indebted. The HIPC Initiative was a first and important step towards a solution to the debt problem. However, its implementation had been slow and, for certain countries, it would mean only modest debt relief. Substantial debt reduction, and even debt cancellation in certain cases, was urgent and constituted a precondition for attracting the foreign capital required to maintain economic recovery and ensure Africa's economic take-off. He supported the suggestion in the *Trade and Development Report* that an independent panel assessment of Africa's debt sustainability be undertaken. Moreover, the declining trend of aid flows needed to be reversed, because aid should be a predictable source of finance for long-term investment in sensitive areas such as agriculture and technology.

279. African exports should be granted better access to the world markets, particularly in respect of agriculture, textiles and clothing. Analysis had shown that a reduction in market access restrictions in developed countries would help develop a textile and clothing industry in Africa which was important, given the close link between manufactured exports and economic growth.

280. It was crucial for Africa to be integrated into the international trading system and thereby avoid further marginalization. The role of UNCTAD in helping African countries to gain a fuller understanding of WTO Agreements and in preparing them for future negotiations should be strengthened further, through both analytical work and technical assistance projects. He welcomed the secretariat's publication of a fact sheet on Africa, which provided useful nformation to the private sector and potential foreign investors.

281. The spokesperson for the **Asian Group and China** (Islamic Republic of Iran) said that the grave situation in Africa was of great concern to the Asian Group and China, which supported UNCTAD's contribution to the United Nations New Agenda for the Development of Africa in the 1990s and the ideas and recommendations put forward in Part Two of the *Trade and Development Report*, 1998.

282. There was a great potential for interregional trade and cooperation. Asian-African trade flows had increased considerably in the recent past, but more needed to be done by the international community to enable Asia and Africa to fully exploit the potential. Africa was in need of financial and technical assistance to be able to increase investment in physical and human infrastructure. Asian countries had already initiated partnerships with African countries and intended to expand these further. However, Africa's access to developed countries' markets remained restricted.

283. The universality of WTO was of great importance. African countries should be supported in the process of their accession to the WTO and in the implementation of WTO rules, particularly those of specific interest to them.

284. UNCTAD's analysis of regional problems was interesting and should be pursued further within the framework of a global approach.

285. The representative of **Madagascar** said that three decades after independence Africa had still not reached the stage of economic take-off, even though the prospects were promising for some countries. Agriculture remained the principal sector in Africa, especially in the least developed countries, but productivity growth in agriculture was constrained by the external debt problem, the decrease in official development assistance and natural disasters. These factors added to the problems of market access. UNCTAD should continue to study ways of increasing resources for African development and cooperate closely with other organizations: with the IMF and the World Bank with a view to extending the HIPC Initiative to more highly indebted poor countries; and with the FAO with a view to ensuring more aid for countries suffering from natural disasters. Without adequate solutions to these problems, Africa would be unable to benefit from globalization.

286. Efforts at both the national and the international level to solve the obstacles to African development needed to be strengthened. The different initiatives launched in the United Nations system and elsewhere in favour of Africa were very important in this respect. However, the results of these initiatives had been disappointing because of insufficient funding, inflexible conditionalities or too narrow a sphere of application. Resources for technical assistance by UNCTAD and other institutions were declining and inadequate for their tasks. If this trend continued, one would be tempted to ask whether there was sufficient political will on the part of the rich countries to strengthen international cooperation.

287. Industrial development in Africa was seriously delayed despite the enormous potential of the region, and in some least developed countries industrial growth had even declined. Substantial efforts to increase the level of investment were thus required in most African countries.

288. The representative of **Egypt** said that the attainment of growth in the order of 6 per cent, as stipulated in the United Nations New Agenda for the Development of Africa, was the only way to improve the economic situation in Africa, but only a limited number of countries had achieved this level of growth. The structural adjustment programmes which had been implemented by many countries and which built on a reduced role of the state and the liberalization of markets had not produced the expected results.

289. The relative improvement of the performance of many African countries since 1995 had basically been due to climatic conditions. A deterioration of these conditions, together with a decline in commodity prices as a result of the Asian crisis, would seriously endanger this improvement.

290. Development in Africa required a new vision, a favourable international environment and rational domestic policies. The external debt burden was the most important obstacle for sustained African growth and development. The HIPC Initiative, although a welcome step, was insufficient and did not provide a real solution. UNCTAD's proposal for the establishment of an independent mechanism to evaluate the debt service capacity of African countries was therefore a welcome initiative.

291. To achieve greater export diversification and to increase intraregional trade in Africa, current production patterns had to be changed. While FDI could play an important role in the diversification of production and the transfer of technology, its current level was not commensurate with the investment opportunities that Africa offered. The perception of potential investors had to be corrected by making the advantages of FDI in Africa more transparent, particularly in the present situation where investment flows might be further reduced in connection with the international financial crisis.

292. The representative of **South Africa** said that despite Africa's recent positive growth performance a number of fundamental structural problems had to be addressed. Chief among these was external indebtedness. In this context he endorsed UNCTAD's recommendation that an independent body of experts be constituted to address the problem of debt sustainability. No lasting solution could be found without an equitable agreement on how the unpayable portion of debt should be written off.

293. A more comprehensive, integrated vision and a balanced approach to development were needed, which would take into account the social impact of structural adjustment programmes. Priority should be given to capacity-building and to the social sector, as stated in the United Nations System-wide Special Initiative on Africa.

294. There was a need for a more coordinated approach and for greater policy coherence in the approach of multilateral organizations to African development. Due attention had to be paid to the emergence of regional blocs. UNCTAD, together with the African countries, should develop strategies addressing the weak supply capacities and the decline of investment in Africa. The emergence of a strengthened rules-based system had increased UNCTAD's importance as a forum that assisted developing countries in identifying their trade and development priorities, and that provided appropriate development-oriented research, analysis and technical assistance. Together with confidence-building intergovernmental dialogue, these were preconditions for developing countries entering contractually binding negotiations.

295. Strengthened regional integration would contribute to accelerating economic development in Africa. Trade liberalization needed to be accompanied by accelerated industrialization and investment in the region, underpinned by infrastructural development and rehabilitation. A number of Spatial Development Initiatives had been launched in southern Africa with a view to enhancing trade and investment. South Africa had offered more rapid trade liberalization than its South African Development Community (SADC) partners, within the SADC trade

protocol for which formal negotiations would start soon and which should lead to a free trade area in southern Africa within five to ten years.

296. The representative of **Mauritius** said that developing countries needed to be better integrated into the world economy in order to benefit from the process of globalization. However, they also needed to be prepared to deal with the risks of that process. The risk of marginalization of African countries was becoming more serious owing to the negative effects of the international financial crisis. These effects, combined with difficult market access conditions for African exports, threatened to bring the recent positive growth experience to an end.

297. Despite the efforts of many African countries to establish conditions that investors considered to be prerequisites for FDI inflows, such as the implementation of structural adjustment programmes and commitments under the WTO's financial services agreement, the volume of FDI inflows into Africa remained marginal.

298. The debt burden represented a systemic danger for African countries, especially in the light of deteriorating terms of trade and the balance-of-payments difficulties resulting therefrom. The HIPC Initiative represented an important international effort to address the untenable debt burden of many African countries. However, its results had fallen short of earlier expectations. The establishment of an independent panel of experts, which would assess the sustainability of debt in African countries and make recommendations acceptable to creditors, should be envisaged.

299. The representative of **Kenya** said that investment was critically lacking in Africa and that domestic investment rates had to be increased. The deficiency in investment had led to difficulties in the provision of social and physical infrastructure, which had in turn caused productivity to remain low. It was important to recognize the complementarity between public and private investment. Foreign investment should act as a supplementary source of investment. In this way, a greater degree of stability and sustainability in the investment pattern could be ensured.

300. Furthermore, there was a need to strengthen Africa's supply capacity. Efforts had to focus on improving agricultural supply capacity, which formed the backbone of the African economy. In pursuing this goal it was important to take into account specific local conditions. In development projects and technical cooperation activities, locally available human and physical resources should be used to the maximum extent possible.

301. The representative of the **United States of America** said that the UNCTAD secretariat had provided a very thoughtful and comprehensive analysis of the challenges facing Africa. While there had been signs of economic recovery since 1994, it was not time for Africa to rest on its laurels. Africa's poverty rates were still much too high, and human development indicators remained unacceptable. Moreover, levels of investment and productivity in both agriculture and industry were unacceptably low. It was very discouraging that 70 per cent of privately owned African wealth, apart from land, was held outside the African continent. Accordingly, the principal policy challenge in many countries was to create a pro-investment climate, underpinned by democracy, respect for human rights and good governance. Investment in basic human resources needed to be a top priority.

302. The international community had to do more to broaden economic opportunities for all Africans. Through the "Partnership for Economic Growth and Opportunity in Africa" the United States was trying to help expand its trade and investment ties with Africa, to support indigenous business development and to strengthen transportation infrastructure.

303. In the area of debt relief, the United States had supported extinguishing bilateral concessional debt owed by qualifying Governments, and reprogramming local currency earnings from commodity assistance programmes to encourage human development and agricultural reform.

304. The representative of **Japan** said that his country had continued in recent years to provide ODA loans of more than $1 billion a year as well as substantial aid for debt relief, and it had cooperated with Africa in the area of human resources development in various forms.

305. Japan had sponsored the UNCTAD International Conference on African Development in a Comparative Perspective, which had been hosted by Mauritius in September 1998, following similar conferences in 1996 and 1997. Of particular significance had been the First Tokyo International Conference on African Development (TICAD I), organized jointly by Japan, the United Nations and the Global Coalition for Africa in October 1993. The concepts of ownership of sub-Saharan African countries and partnership with the international community, which had been emphasized at the Conference, had been subsequently incorporated into the Development Partnership Strategy adopted by the Development Assistance Committee of OECD, and the G-7 countries had made a firm commitment to these concepts at the Lyon Summit in 1996 and to translating them into concrete action at the Denver and Birmingham Summits in 1997 and 1998, respectively.

306. Japan, the United Nations and the Global Coalition for Africa were also co-organizers of TICAD II, to be held in October 1998. That Conference would address wide-ranging issues in the areas of education, health, private sector development, agriculture, good governance and environmental management. It would formulate an agenda for action for African countries and their development partners.

307. The various difficulties faced by African countries in recent years had been partly compounded by the Asian financial crisis. But given Africa's richness in natural and human resources, its future was not bleak. The emerging new generation of able African leaders was committed not only to the cause of democracy or national reconciliation but also to nation-building and to raising the living standards of their countries' citizens.

308. The representative of **Austria**, speaking on behalf of the **European Union**, said that UNCTAD's examination of Africa's development problems came at a time when growing optimism about the region's economic prospects coincided with increased pessimism about global economic conditions. The key question was therefore how to sustain the recent upswing in African economies in the face of a deteriorating external environment associated with the recent financial turmoil. The *Trade and Development Report*, 1998 offered some helpful suggestions in the area of local capacity-building. In other areas, however, its proposals were leading in the wrong direction.

309. The earlier poor performance in sub-Saharan Africa was to be explained by both internal and external causes. Recent institutional and policy changes had encouraged an environment for enterprise, strengthened the confidence of local and foreign investors, and reinforced supply-side capacity and competitiveness. The *Report*'s emphasis on creating a "developmental state" for African economies was a useful framework for further improving local capacities. The policies of this state should be simple, predictable and transparent, and equity and the rule of law should prevail.

310. A particular emphasis of such policies should be on encouraging the efficient and fair operation of markets. In certain respects, the *Report*'s advocacy of a return to policies such as interest rate controls and discretionary changes in the business environment were not appropriate and could deter African countries from furthering their integration into the world economy.

311. Capacity-building should include the ability to supervise and regulate the financial sector, to discourage imprudent lending, to enforce credit discipline and to build the confidence of savers in financial intermediaries. However, the *Report*'s call for rigorous preconditions for capital account liberalization might discourage investment flows to African countries.

312. The world financial crisis had had an adverse impact on African economies through declining commodity prices. This in turn had made it more difficult to attract investment into commodity production, thus setting back growth prospects in the medium term. Technical assistance to weather the crisis was therefore needed.

313. Substantial debt relief had already been granted to a number of countries. The Naples terms and the HIPC Initiative had paved the way for a significant debt write-down and were consistent with the pursuit of sound policies. Improvements to the HIPC Initiative would be best pursued with the collaboration of the multilateral and regional financial institutions to which most outstanding external debt was owed.

314. The representative of the **European Community** said that trade liberalization was an essential element in development and a means of improving the competitiveness of African countries. However, trade should be liberalized cautiously, with account being taken of distributional consequences and the aim being equitably shared growth and poverty reduction.

315. Developing countries in general, and African countries in particular, should expand their participation in the multilateral trading system. At the same time, multilateral trade negotiations should produce flexible formulas for developing countries in order to ensure respect for developmental needs and constraints.

316. The European Union had long supported initiatives for regional cooperation and integration, particularly in Africa. Regional integration was not in contradiction with progress in multilateral trade negotiations. African countries covered by the Lomé Convention enjoyed a high degree of market access in the European countries.

317. Both domestic and foreign investment in Africa and measures to promote such investment were highly important. This had been acknowledged by both sides in the negotiations between the European Union and the African, Caribbean and Pacific

group of countries. Pessimism about the potential for foreign investment flows into African countries was misplaced.

318. The representative of **Norway** said that African Governments had to take the lead in establishing the preconditions for attracting private capital. These included peace and political stability, sound macroeconomic policies, respect for human rights, good governance, openness and transparency. However, sound policies at the national level were not by themselves sufficient to foster sustained growth and development.

319. A greater integration of African economies into the world trading system should be on the international agenda. Market access was a crucial issue. Despite some promising trends, it was evident that most African countries had so far been unable to take sufficient advantage of the globalization process. One of the main obstacles to economic and social development in Africa was the heavy debt burden. International efforts to provide debt relief were therefore of paramount importance. The HIPC Initiative was the most far-reaching scheme for debt cancellation ever launched, but there was potential for its improvement in terms of including more countries, speeding up implementation of the mechanism and attaching higher priority to social issues.

320. Another critical issue was the need for African countries to foster a dynamic private sector. Local authorities and donor agencies had to cooperate with the private sector to create a favourable environment for attracting private investment. Innovative public-private partnerships were therefore greatly needed.

321. In agriculture, it was vital to adapt pragmatic policy approaches to the specific context of each country. Strengthened regional and subregional cooperation to enhance trade would help to promote growth and development. Developed and developing countries should make a mutual commitment to allocate 20 per cent of ODA and 20 per cent of national budgets, respectively, to basic social programmes.

322. The representative of **Cuba** said that the unpayable external debt, the impact of decreasing ODA and low prices for primary commodities were crippling the African and other developing economies. The enormous needs in terms of infrastructure, financial resources and human capital could be met only within the framework of a strengthened role of the state in development. Institutional development and caution in market liberalization were important principles of the development strategies to be adopted by African countries, while the international community should uphold the advantages accorded to the poorest countries in the WTO Agreements. UNCTAD could undertake a complete evaluation of the sustainability of African external debt, possibly in collaboration with other organizations.

323. Cuba itself had had severe economic problems since the end of the cold war, but it had a clear historical commitment to support development in Africa, especially in health and education. If the international community's efforts and promises failed to produce concrete results, a severe threat would result from Africa's misery, particularly for the developed countries.

324. The representative of **China** said that while the recent economic recovery in Africa was a promising sign, it should not give rise to undue optimism regarding development in the region. Growth in most African countries remained extremely fragile, and although some countries had achieved satisfactory growth

rates in the order of 6 per cent in recent years, they would have to maintain these rates for many years to come in order to regain lost ground.

325. Much needed to be done to overcome internal difficulties and to consolidate African growth. Savings and investment rates were insufficient, the agricultural sector lagged behind, and the levels of exports and industrialization were low compared with those of other regions. Declining ODA, the external debt burden and lack of access to FDI were all factors hindering a sustained recovery in Africa. In order to overcome these problems, African countries had to continue domestic economic reforms, but this process needed external support. The international community, particularly the major donor countries, could help by creating a favourable external environment and providing effective financial and technical assistance, especially to sub-Saharan Africa.

326. China, although a developing country itself, had constantly increased its assistance to Africa. Its trade with the region was also expanding, and there remained considerable potential for economic cooperation between China and the African countries.

327. The representative of **Nigeria** said that the challenge for African policy makers, highlighted in the *Trade and Development Report*, 1998, was to turn the recent recovery into a stronger and sustained economic take-off. Meeting this challenge would require the full and active support of the international community. In Africa, overall economic growth depended critically on the performance of agriculture. The experience of African economies had shown that liberalization of agriculture was not by itself a sufficient condition for improved performance. Structural constraints and institutional weaknesses were still pervasive problems and had contributed to the undercapitalization of agriculture. Market access difficulties and declining commodity prices had added to the problems facing African agricultural producers. Structural factors were also a cause of Africa's weak trade performance. Constraints on expanding and diversifying productive capacity and ensuring better market access for increased output were the greatest challenges to policy makers in this area. In the light of these, a gradual approach to trade liberalization was desirable.

328. The poor performance of Africa's agricultural and trade sectors had been responsible for the slow pace of industrialization on the continent. Matters had not been helped by low rates of capital accumulation, inadequate flows of foreign direct investment and technology, continual capital flight, scarcity of dynamic indigenous entrepreneurs, and instability and distortions in macroeconomic policies and strategies.

329. The external debt burden of African countries constituted a major obstacle to development. With the decline in the flow of ODA and FDI to the continent, the credible means of increasing resources for development was through substantial debt relief, beyond the HIPC Initiative and its predecessors. Consequently, the international community, in consultation with creditors and debtors, should establish an independent panel of experts to examine and make proposals on a new and comprehensive international debt management strategy with a view to making Africa's external debt sustainable.

330. In the light of these challenges, the reflections on policy options and selective strategies in the *Trade and Development Report* should be pursued further and serve as reference for a rethinking of market fundamentalism.

331. The representative of **Ethiopia** said that despite the pursuit of economic reform programmes in many African countries the marginalization of Africa in the globalization process continued unabated, as illustrated by Africa's small share in the foreign direct investment flows to developing countries. This was due to a number of constraints on the ability of African countries to achieve accelerated growth and development.

332. The external environment, with declining export prices and reduced inflows of official development assistance, was not conducive to recovery in Africa. In addition, the heavy debt burden in many African countries had impeded investment in physical and social infrastructure and discouraged private capital inflows. Furthermore, tariff escalation in major export markets had diminished the effectiveness of African countries' export diversification and industrialization efforts.

333. The HIPC Initiative represented a more comprehensive approach to the resolution of the debt crisis in Africa and other heavily indebted poor countries, but its implementation had to be more rapid, and its eligibility criteria had to be relaxed further. The proposal for a comprehensive assessment of the sustainability of African debt by an ad hoc independent group of experts merited serious attention.

334. The international community should now bridge the remaining gap between the commitments contained in the United Nations New Agenda for the Development of Africa in the 1990s and their actual implementation.

335. The representative of **Switzerland** said that there had been some economic progress in Africa since 1994. The challenge was now to consolidate these gains and to develop them further, with priority being given to the private sector. Without an enabling domestic policy environment, investment would not be forthcoming.

336. An initiative aimed at promoting FDI in Africa had been launched in June 1998 at the Crans Montana Forum, where representatives of African Governments and of the private sector had met to discuss business opportunities. Under that initiative, a pilot project to promote investment in the agro-food sector was about to be implemented. The *Trade and Development Report*, 1998 was too pessimistic about FDI in Africa.

337. The debt problem of African countries was a reason for concern. Switzerland was seriously engaged in the HIPC Initiative and welcomed the extension of the so-called Sunset Clause. Efforts at debt reduction should be strengthened and accelerated, but the HIPC Initiative should not become a permanent debt reduction facility. Undoubtedly, external debt had fiscal implications, but contrary to what was suggested in the *Report*, these could not be seen in isolation from the relationship between debt and the balance of payments. Of the utmost importance in this context was the development of local capabilities in debt management. UNCTAD should continue its monitoring and analytical work, but in no way should it engage in activities similar to those of the Bretton Woods institutions.

338. The development of agriculture was crucial for Africa's recovery. Equally important was the restoration of a climate favourable to the expansion of the private sector. Among the important reforms to be undertaken was the creation of an independent and reliable judicial system. Regional trade integration in

Africa should be promoted, also as a means of strengthening competitiveness in world markets.

339. The representative of **Uganda** said that the challenge for Africa was to achieve the target growth rate of 6 per cent to halt the marginalization of the region. Since 1995 Africa had recorded higher growth rates than for many years, but bold measures were required in order to support and further accelerate growth. The recent recovery in Africa had been partly due to temporary factors, including improved weather conditions and higher commodity prices in the mid-1990s.

340. The structural adjustment programmes implemented by most African countries had contributed to the recovery, but required a supportive international environment to be really effective. The mobilization of resources for investment was critical to African development. ODA flows had declined, however, and efforts to attract FDI had not led to the results hoped for. While more efforts, both national and international, were necessary for increasing the flow of private capital to Africa, an improved health and education infrastructure had to be provided by Governments.

341. Better trade performance was an important condition for African development. While the comparative advantage of most African countries was in agro-based industries, market access was generally more difficult for processed goods than for raw materials. Developed country members of the WTO should help poor members to develop their capacity to participate in, and benefit from, the multilateral trading system. The GSP schemes for Africa were welcome, and the integrated programme for technical assistance, agreed at the recent high-level ministerial meeting, should be implemented expeditiously.

342. The heavy debt burden, including the large volume of accumulated arrears, represented a continuing deterrent to foreign investment. A comprehensive solution to this problem was required. The HIPC Initiative was useful, but needed to be implemented with greater flexibility, and the sustainability of Africa's debt should be assessed by an independent body of experts.

343. The representative of **Senegal** said that in 1997 there had been unanimous satisfaction with Africa's progress towards economic stabilization, democracy and the rule of law, which were all important elements of a development-friendly environment. The *Trade and Development Report*, 1998 warned of the risks of an early end to Africa's recovery. It was a fact that structural adjustment programmes had led to improved macroeconomic equilibria only at the cost of severe sacrifices and of a weakening of the role of the State. It had become clear that the State had important functions as regards development, and its role had therefore to be fully restored. However, domestic policy efforts had no chance of succeeding if the present trend towards diminishing development assistance was not reversed and if the debt problem was not resolved. This had been recognized by, for example, President Clinton. UNCTAD's analysis, and particularly the proposal for the establishment of an independent committee to evaluate the sustainability of African external debt, was to be supported. However, even a solution to the debt problem would bring little long-term benefit if it was not accompanied by an opening of developed countries' markets.

344. The existing regional and subregional trade integration schemes in Africa should be consolidated. African economies were suffering particularly from a lack of human capital, especially in the field of international trade; for its part, Senegal was preparing a new proposal in this connection. Finally, while attention

was now focused on UNCTAD X, the West African Economic Community was still waiting for the financing promised by the European Union at UNCTAD IX for the implementation of a programme aimed at integrating its members into the world trade network.

345. The representative of the **International Monetary Fund** (IMF) said that the focus of the *Trade and Development Report*, 1998 appeared to be a critique of structural adjustment programmes. The impact of the devaluation of the CFA franc in early 1994 in fostering the subsequent good performance of some countries had been overlooked in the *Report*'s analysis. Increased investment was of course necessary, but it would be of little use without increased efficiency and a policy environment conducive to the development of the private sector. Improving efficiency in the use of limited resources would also help to combat aid fatigue and to generate more sympathy for debt relief.

346. The approach of the *Trade and Development Report*, which involved a revamped role for government intervention, including in the sphere of prices, had already proved to be wrong in the 1970s. The problem that market liberalization had not led to higher returns for producers should be tackled in the framework of market-oriented policies rather than be used as an argument against such policies. The ideas about restoring or strengthening marketing boards and development banks could be debated. In order to be effective, marketing boards needed to be free of political interference and abuse, and public development banks had in the past often led to an accumulation of non-performing loans.

347. For protection of infant industries to be effective, it had to be implemented by skilled bureaucracies, but these did not exist in Africa. Also, such protection was inconsistent with regional trade agreements and tended to generate distortions in resource allocation. Even export processing zones were not always beneficial.

348. While economic liberalization should not be slowed down, debt relief would not solve much, because the very existence of a debt problem showed that the economy had been mismanaged in the past. The IMF was engaged in extending the HIPC Initiative and in ensuring its proper financing. It had also studied thoroughly the concept of debt sustainability.

Informal meetings

349. The Sessional Committee pursued its consideration of agenda item 6 in informal meetings.

Summary of the presentations by experts and subsequent discussions at the informal meetings of Sessional Committee II[1]

350. The presentations of the invited experts revealed that despite recent improvements in Africa's economic performance, the region was still facing the challenge of igniting sustained economic growth. The approaches of the past 15 years, focusing on market liberalization and a reduced role of the state, had failed in this regard, because structural problems had not been addressed. It had been wrong to stimulate traditional exports whose prices were declining. There was a positive relation between state intervention designed to address

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[1] Prepared by the UNCTAD secretariat.

structural problems and producer terms of trade and output. A new, pragmatic approach to development was needed. While entrepreneurship had to be nurtured, agriculture was the basis for both economic growth and poverty alleviation. Price reform alone could not achieve a sustained supply response; higher investment was of crucial importance, as was the development of institutions, in particular in the area of finance and technology.

351. In spite of various debt initiatives over the past 10 years, the stock of external debt and of arrears had continued to rise, hampering both domestic and foreign investment. A new feature was the mounting debt to the multilateral institutions. Debt relief under the Heavily Indebted Poor Country (HIPC) Initiative was too slow and insufficient. While it remained unclear what constituted an environment conducive to private investment, removal of the debt overhang was considered to be crucial. Africa's backwardness in industrialization was deemed to be a result of colonialism. The region's risk of financial contagion in the current international turmoil was limited. The fact that many African countries had adopted flexible exchange rates and that their currencies had been depreciating over the past few years provided less scope for international speculators to attack African currencies. However, Africa could be affected negatively by the Asian crisis through sharply reduced export earnings and because substantial amounts of development financing might now fund Asian rescue packages rather than African development. This latter effect could be neutralized through the creation of new multilateral facilities for Asia and the Russian Federation.

352. In the floor discussion a number of external factors constraining growth in Africa were identified. In several statements pessimism was expressed about flows of official and private finance. Conditions for many agricultural exports were considered to be difficult. The prices of traditional products were likely to decline, while the markets for two key non-traditional agricultural exports - fruit and vegetables - were likely to be saturated in the next few years. On the other hand, new opportunities could arise in grain markets since subsidies in industrial countries were being reduced.

353. There was broad agreement that greater political stability might improve the conditions for development and that the trend towards democratization was important. It was pointed out, however, that given the historical origins and ethnic diversity of African countries, they required different forms of governance than, for example, Europe.

354. The need to place domestic policy analysis in a global economic perspective was strongly affirmed. African countries needed to increase national savings and investment. International action was required in order to create a more supportive external environment in which trade and financial relations were more equitable and risks more equally shared.

355. While African countries should not readopt the policies of the 1960s and 1970s, it was necessary to address the problems and issues with which those policies had tried to deal. African countries could achieve high rates of growth, and there was no reason for "Afro-pessimism".

356. Specific policy proposals were made regarding debt, agriculture and regional integration. It was argued that both the political establishment of African countries and donors were responsible for the bad use of external finance and the resulting debt problem. It was proposed, *inter alia*, that any debt relief

measures be linked to a commitment by beneficiaries not to use freed resources for military purposes, to eliminate corruption and to avoid unproductive projects.

357. In agriculture three priorities were identified: for export crops, it was necessary to restore regulation with regard to quality control; input supply should be regenerated through non-market interventions; and research and development should be redirected with a view to integrating modern and indigenous methods. It was considered important for Africa to seek and secure higher-value-added niches in international markets.

358. It was pointed out that slow progress in regional integration and cooperation did not reflect lack of political will. There had been a conflict between support for regional integration, which implied giving preferences to selected countries, and the liberalization measures that had to be implemented under structural adjustment programmes. The Abuja Treaty was an important step forward, and the existing regional organizations were building blocks for the broader regional integration envisaged under the Treaty. It was considered important that international organizations support the priorities set out in the Cairo Agenda for Action.

Proceedings of the closing plenary meeting of the Sessional Committee

359. The spokesperson for the **Latin American and Caribbean Group** (Argentina), referring to paragraph 9 of the draft agreed conclusions, said that while his Group agreed that enhanced assistance to Africa, through extrabudgetary resources, by UNCTAD and other relevant organizations was needed, this should not be to the detriment of other regions. It was important to maintain a regional balance.

360. The Sessional Committee adopted its draft agreed conclusions and transmitted them to the Board for adoption. It also took note of the summary by the secretariat of the presentations by experts and subsequent discussions at its informal meetings.

Action by the Board

361. Acting on the recommendation of the Sessional Committee, the Board, at its 900th plenary meeting, on 23 October 1998, adopted agreed conclusions 454 (XLV). (For the text of the agreed conclusions, see TD/B/45/13(Vol.I)).

Chapter V

REVIEW OF TECHNICAL COOPERATION ACTIVITIES OF UNCTAD IN ACCORDANCE WITH PARAGRAPH 96 OF "A PARTNERSHIP FOR GROWTH AND DEVELOPMENT"

(Agenda item 7)

362. For its consideration of this item, the Trade and Development Board had before it the following documentation:

"Review of technical cooperation activities of UNCTAD: report by the Secretary-General of UNCTAD" (TD/B/45/6 and Add.1 and 2);

"Agreed conclusions of the Working Party on the Medium-term Plan and the Programme Budget on its review of the technical cooperation activities of UNCTAD and their financing" (TD/B/WP/L.84).

363. The representative of **Morocco**, speaking in his capacity as **Chairman of the Working Party on the Medium-term Plan and the Programme Budget at its thirty-second session**, reported to the Board on the outcome of the Working Party's deliberations (TD/B/WP/L.84). Among other things, the Working Party had discussed the secretariat's proposal concerning partial cost recovery for selected programmes, namely ASYCUDA, DMFAS and ACIS. The Working Party had expressed general agreement on the principle of ensuring the financial self-sustainability of these programmes, but different views had been expressed as regards the modalities for partial cost recovery. While a majority of developed countries had expressed sympathy for the secretariat project, many developing countries had been of the view that further thinking was needed on the proposals. Proposals had been made in that respect, in particular with a view to taking into consideration the situation of LDCs and low-income countries. Finally, the Working Party's agreed conclusions contained a draft decision which the Working Party transmitted and recommended for adoption to the Board. Particular attention was drawn to paragraph 13 of the draft decision, in connection with which it was the understanding of the Working Party that the secretariat would prepare revised proposals on partial cost recovery, taking account of the concerns expressed in the Working Party.

364. The spokesperson for the **African Group** (Tunisia) noted with satisfaction the continued growth of technical cooperation activities and in particular the increase in the share of the African region and of LDCs, in line with UNCTAD IX recommendations. She expressed the appreciation of her Group to all donors. She thanked the secretariat for the preparation of the Handbook on technical cooperation, which provided information on how to request assistance, and she expressed appreciation for the efforts undertaken to enhance cooperation between UNCTAD and other organizations working in trade-related areas; at the same time, she urged the secretariat to further enhance cooperation with ECA and OAU. She noted in particular the partnership between UNCTAD, ITC and WTO in the implementation of the Joint Integrated Technical Assistance Programme in Least Developed and Other African Countries and the close cooperation between UNCTAD, ITC, UNDP, WTO, the World Bank and IMF with respect to activities mandated by the High-level Meeting on Integrated Initiatives for LDCs' Trade Development. With regard to the distribution of technical cooperation expenditures in the African region, she underlined the need to focus on country activities and capacity

building; although important, regional integration could only be developed on the basis of sound national capacity. South-south cooperation could be further reinforced through "triangular cooperation", and she encouraged the UNCTAD secretariat to call more on experts from developing countries. With respect to the question of partial cost recovery, her Group considered that the implementation of such measures was premature, as the issue needed further discussion. In that connection, her Group supported the idea of a sliding scale and of a complete waiver for LDCs.

365. The spokesperson for the **Latin American and Caribbean Group** (Uruguay) stressed the importance of UNCTAD's technical cooperation activities for his region. He noted with great concern, however, that while total technical cooperation expenditures had increased in 1997, the share of his Group had continued to decrease to only 6 per cent in 1997, and it was expected to drop further to 4.6 per cent in 1998. This constituted the lowest share in relation to other regional groups. He called upon the secretariat, on the basis of paragraph 91 of "A Partnership for Growth and Development" and paragraph 25 of the outcome of the Mid-term Review, to take into consideration the specific needs of his region in the design and implementation of technical cooperation projects.

366. On the question of partial cost recovery, he expressed satisfaction with paragraph 13 of the draft decision submitted to the Board, whereby comments and proposals made at the Working Party would be taken into consideration by the secretariat in its further analysis of the question. He further expressed satisfaction at the resolution adopted by ACABQ and by the Fifth Committee of the General Assembly with respect to the savings made by UNCTAD as a result of the restructuring of its intergovernmental machinery and the reform of the secretariat. Paragraph 2 of that resolution agreed to use the amount of US$ 1,088,000 to cover the costs of the participation of developing countries' experts at UNCTAD's meetings, and the Board was expected to take a final decision on the modalities for the implementation of that provision. Those modalities should be general and simple, they should ensure regional balance, and they should accommodate the interests of developing countries. Finally, his Group considered that the General Assembly should request the UNCTAD secretariat to provide a report on the matter at its next session.

367. The spokesperson for the **Asian Group** (Indonesia) said that technical cooperation was one of the foremost components of UNCTAD's activities and she urged donors to continue to support these activities, and in particular the Trust Fund for LDCs. Though the Asian region's share of technical cooperation expenditures had increased in 1997, it remained at a relatively low level given the needs of the region, and the secretariat should seek to ensure a better relative balance in the share of technical cooperation activities of the various regions, taking into account their respective needs. With respect to the issue of partial cost recovery, it was vital to ensure the financial sustainability of the programmes under review, and she urged donors to continue to support them. A comprehensive evaluation should be made of the cost of installing and maintaining these programmes, so that a reasoned decision could be taken on the issue, taking due account of the specific situation of LDCs. Any resort to partial cost recovery should not be seen as a substitute for donors' support. Finally, she encouraged further cooperation between UNCTAD and other organizations involved in the area of trade and thanked the secretariat for the preparation of the Handbook on technical cooperation, which was a very useful tool.

368. The representative of **Austria**, speaking on behalf of the **European Union**, said that UNCTAD's technical cooperation activities were an essential tool for the full integration of developing countries into the world economic and trading system. She welcomed the increase in the delivery of technical cooperation activities, but noted that activities should be based on coherence, monitoring, evaluation and transparency of costs. Transparency had not improved since UNCTAD IX, and the three-year rolling plan had not fully met expectations. The Secretary-General of UNCTAD should present annually his views on the orientation and priorities for the coming year in the area of technical cooperation, and UNCTAD should continue to focus its activities on areas where it had a comparative advantage. She noted with satisfaction the increased cooperation between UNCTAD, ITC and WTO and welcomed the memoranda of understanding signed with UNDP, UNIDO and UNEP. With respect to the issue of partial cost recovery, it was hoped that the secretariat's revised proposals would facilitate further consultations and that agreement would be reached at the resumed session of the Working Party.

369. The European Union, the largest single contributor to UNCTAD's technical cooperation activities, noted with satisfaction the increase in the share of activities in support of LDCs and considered that this trend should continue. It regretted the decline in the share of expenditures in the Latin American and Caribbean region and subscribed to the concerns expressed by the Latin American and Caribbean Group in that respect. Finally, on the possible use of additional funds from the development dividend for the Trade Point programme, it would be advisable to await the results of the evaluation of that programme before a decision was taken.

370. The representative of **Madagascar** stressed the importance of the role of UNCTAD and in particular of its technical cooperation programmes in helping developing countries to integrate into the global economy. In view of the negative impact that globalization and liberalization were having on the majority of developing countries, these activities needed to be strengthened. It was a matter of concern that contributions to trust funds had declined, and a continuation of that trend would greatly jeopardize a number of important programmes such as ASYCUDA, ACIS, DMFAS, TRAINFORTRADE and TRAINMAR. It was hoped that the post of Special Coordinator for Least Developed, Land-locked and Island developing countries would soon be filled. Finally, he called on donors to continue to increase their contributions in favour of UNCTAD's technical cooperation activities.

371. The representative of **Norway** said that technical cooperation should be seen as a necessary and complementary extension of other core activities of UNCTAD, and he expressed satisfaction for the fact that this interlinkage was being enhanced. He also appreciated the enhanced cooperation between UNCTAD and other international organizations, which should lead to greater coordination and synergy, in particular at the country level. The concentration of a larger portion of UNCTAD's technical cooperation on LDCs was welcome. He noted that donor countries had provided less funding in 1997, and he hoped that this did not represent a new trend towards declining bilateral contributions. New ways to consolidate the financial basis of UNCTAD's technical cooperation needed to be explored, and one possible option was an increase in contributions from beneficiaries. It would be important to broaden the financial basis and ensure the financial sustainability of the highly successful programmes being considered in the context of proposals for partial cost recovery. Due consideration would have to be given to the ability of the recipient country to cover part of these costs. He hoped consultations on that issue would result in a consensus as soon

as possible. Finally he underlined the importance of independent evaluations of UNCTAD's technical cooperation in order to further improve UNCTAD's performance in this field.

372. The representative of **Ethiopia** noted with satisfaction the emphasis placed on Africa and the LDCs in the technical cooperation activities of UNCTAD, in conformity with the recommendations of UNCTAD IX and the outcome of the Mid-term Review; his country had benefited greatly from UNCTAD's technical cooperation. He expressed his gratitude to both traditional and non-traditional donors for their contributions to the LDC Trust Fund. With respect to the issue of partial cost recovery, further consultations were needed, and the secretariat should analyse the technical details further in a clear and transparent manner. Alternative cost-recovery options, including special arrangements for LDCs and other low-income countries, should be explored further; he supported the idea of total exemption for LDCs, and he was encouraged to note the high level of convergence on this issue. Finally, he stressed the primordial role of UNCTAD's technical cooperation activities and encouraged donor countries to make an extra effort to increase extrabudgetary resources for this purpose. Similar efforts should be made by the secretariat to reverse the declining trend in the regular budget resources available for technical cooperation.

373. The representative of **Honduras**, speaking on behalf also of **Costa Rica**, **El Salvador**, **Guatemala**, **Nicaragua**, **Panama** and the **Dominican Republic**, said that Central American countries had indicated their priorities in the field of technical cooperation to the UNCTAD secretariat, which had responded by preparing a technical cooperation programme for the subregion. She thanked the secretariat for its commitment in terms of carrying out the activities included in the programme and appealed to potential donors to support this important initiative.

374. The representative of **Yemen** expressed appreciation for the technical cooperation activities carried out by the secretariat. He noted with satisfaction the increase in the level of technical cooperation activities in favour of LDCs and underlined in particular the importance of programmes such as ASYCUDA, DMFAS, Trade Points and TRAINFORTRADE. He welcomed the conclusions of the Working Party and thanked donors for their continued support. He stressed the importance of ensuring that equal treatment was provided to each and every LDC.

375. The representative of the **Republic of Korea** said that the constant increase in expenditures for technical cooperation activities was encouraging. Future activities should address as a priority the specific needs of certain developing countries with structurally weak and vulnerable economies, in particular with a view to helping LDCs integrate smoothly into the world economy. UNCTAD had a comparative advantage in carrying out technical cooperation activities in the area of trade and development, and it should deal more intensively with newly emerging issues such as electronic commerce, trade and competition, trade and investment, trade and environment, and regional trade agreements. If UNCTAD continued to perform these activities in an efficient manner, there should be room for additional financial resources in support of activities aimed at facilitating the integration of developing countries into the world economy. Finally, UNCTAD should continue its work in support of regional trade arrangements.

376. The representative of the **Russian Federation** welcomed the increase in the total level of technical cooperation expenditures and in particular in the share of LDCs. He noted with concern that technical cooperation expenditures in Europe had fallen by 30 per cent in 1997 and called for a better balance in the

distribution of resources. Technical cooperation must continue to be one of the most important aspects of UNCTAD's activities, and it must follow the principle of universality. UNCTAD must also continue to cooperate closely with other organizations involved in trade issues. The question of partial cost recovery required further discussion with a view to finding a solution acceptable to all member countries. Finally, the work undertaken by UNCTAD in support of countries' accession to WTO should continue, and he thanked UNCTAD for the valuable support extended to his country in that respect.

377. The representative of **Egypt** said that technical cooperation was an important complement to the analytical work undertaken by UNCTAD, and he welcomed the increase in overall delivery, in particular in favour of LDCs and Africa. He expressed appreciation to donors and noted that developing countries were also contributing, thereby indicating the importance they attached to UNCTAD's technical cooperation activities. It would be important to ensure a better relative balance in the share of technical cooperation activities of the various regions, and it was hoped that there would be an increase in the funds allocated to technical cooperation. The proposal on partial cost recovery was welcome, but the particular conditions of LDCs must be taken into account. He looked forward to continuing the discussion on that issue in light of the suggestions made at the Working Party.

378. The representative of **Switzerland** said that the three-year rolling plan was an important instrument for making projections, facilitating fund raising and ensuring better planning. It should be produced once a year as a basis for the Working Party's discussions on technical cooperation and the Board's review. Secondly, with respect to evaluation, and pending decisions to be taken in New York, evaluation mandates must be improved, in particular concerning the procedures to be followed and the terms of reference of evaluators. Thirdly, a decision should be taken as soon as possible on the question of partial cost recovery for selected programmes, in the interest of all users. This would be a precondition for an increase in the resources allocated by donors to these programmes. The adoption of the proposal on partial cost recovery should also facilitate greater transparency and improved standards of accounting. Finally, there should be an overall in-depth discussion on the need to establish priorities for UNCTAD's technical cooperation activities and on the necessary resources.

379. The representative of **Japan** said that it would have been useful if the report of the secretariat had included the views of beneficiaries of technical cooperation projects to allow a better assessment of project impact, and this should be taken into consideration in the next report. Such a feedback mechanism would improve transparency and increase the degree of ownership by developing countries of the various programmes carried out by UNCTAD.

380. At the invitation of the Chairman, the **United Nations Coordinator in Somalia** made a statement describing the strong partnership between UNDP and UNCTAD in Somalia from 1993 onwards. UNCTAD assistance had started in the ports, but given the major focal role of ports, activities had diversified into other areas related to trade and customs administration. The UNCTAD ports and trade programme was one of the five strategic programmes of UNDP and had been catalytic in initiating other programmes relating to training and security. In the north of Somalia, the situation was moving away from one of humanitarian relief to one of rehabilitation. Trade was being actively pursued, with significant exports of livestock. He appealed to donors to enhance their funding of UNDP programmes so as to allow UNCTAD and other agencies to assist Somalia's rehabilitation efforts.

381. The representative of the **United States of America** expressed support for technical cooperation activities for those countries that needed it most, independently from any regional considerations. Least developed countries and structurally weak and vulnerable economies needed this vital technical assistance in order to participate better in the world trading system. Finally, his delegation supported investment policy reviews, which represented a very useful mechanism for assisting countries in evaluating their current and proposed investment policies.

382. The representative of **Canada** welcomed the growth of technical cooperation activities in UNCTAD. UNCTAD should continue, and enhance, its focus on a technical cooperation strategy that included: demand-driven priorities; a focus on human and institutional capacity-building; priority for LDCs, without neglecting technical cooperation activities for non-LDCs; the use of UNCTAD's analytical work; flexibility in forms of technical cooperation and in modes of delivery; and cooperation and partnership with other organizations. Many of those points were relevant to the High-level Meeting on Integrated Initiatives for LDCs' Trade Development, for the follow-up to which UNCTAD had a vital role to play. There should be greater efforts on the part of UNCTAD to engage local partners in developing countries in the design and delivery of trade-related technical assistance, and UNCTAD should also ensure greater gender sensitivity in the overall delivery of its technical assistance. With respect to partial cost recovery, she supported UNCTAD's consideration of the matter. She concluded by reaffirming her country's commitment to technical cooperation and capacity-building in developing countries with a view to their full integration into the world economy.

383. The representative of **China** said that UNCTAD's technical cooperation had to adapt to the ever-changing economic situation and to the evolving needs of developing countries. Training and capacity-building activities were particularly important, and particular attention should also be given to providing assistance to developing countries in the field of financial reform.

384. The representative of **Ecuador** said that the decrease in the share of technical cooperation expenditures in the Latin American and Caribbean region was alarming. He thanked the UNCTAD secretariat for the assistance extended to his country in the implementation of various technical assistance projects.

385. The representative of the **Islamic Republic of Iran** underlined the importance of technical cooperation in the field of training in trade policy. UNCTAD should consider developing software which could help in determining the level of competitiveness of a country in certain products and contribute to the selection of optimum trade-and-investment-related activities. He thanked the UNCTAD secretariat for the technical cooperation activities undertaken in his country in the areas of customs automation and competition law and policies.

386. The representative of **Colombia** recalled the importance attached by member States to technical cooperation activities in "A Partnership for Growth and Development" (TD/377), paragraphs 95-99 of which stressed the specific role to be fulfilled by UNCTAD's technical cooperation activities in helping developing countries to integrate into the world economic and trading system. The funds available to UNCTAD to carry out these important activities were very limited and not at all commensurate with the enormous task at hand. Developing countries should unite and support the idea of including in UNCTAD's regular budget the financial resources necessary for the implementation of its obligations in the

field of technical cooperation. Finally, he expressed concern at the continuous decrease in the share of technical cooperation expenditures devoted to the Latin American and Caribbean region. In the course of only four years, the region had lost more than half of its share, and the secretariat was forecasting a further decrease in 1998. He requested the UNCTAD secretariat to take all necessary steps to stop this deterioration and to guarantee that the Latin American and Caribbean Group received attention in line with its needs and historical share.

387. The representative of **Malta** stressed the importance of technical assistance in UNCTAD's work. The increase in UNDP's contribution and the signature of the memorandum of understanding between UNCTAD and UNDP were welcome. Increased cooperation with ITC and WTO was necessary, and the establishment of a Global Trust Fund for the financing of the Joint Integrated Technical Assistance Programme in Selected Least Developed and Other African Countries was a step forward. Developing countries must be responsible for their own development, and technical cooperation activities should be implemented with this essential notion in mind. More information should be provided on this in future reports.

388. The representative of **Cuba** said that UNCTAD's technical cooperation was extremely valuable to his country and very crucial for developing countries in general, in particular in respect of improving their negotiating skills. The decrease in the share of expenditures in favour of the Latin American and Caribbean Group was a matter of concern. He underlined the quality and diversity of UNCTAD's technical cooperation activities and appealed to donor countries to increase their support with a view to strengthening this important aspect of UNCTAD's work.

389. The **Chief, Inter-organizational Affairs and Technical Cooperation**, said the secretariat had taken due note of the concern of the Latin American and Caribbean Group with respect to the declining trend in the share of UNCTAD operational activities undertaken in that region. The secretariat would do its best to reverse that situation. The figures in the secretariat's report reflected both requests from beneficiaries and the availability of resources, and in that respect beneficiaries had an important role to play in the search for funds. The secretariat would work with Latin American and Caribbean countries to seek ways to utilize UNDP funds available at the regional level. He hoped that the necessary funds would be raised to implement the projects being developed with Central American countries.

390. With respect to partial cost recovery, he took note of the wish to arrive at a consensus as soon as possible. He further noted the importance attributed by a number of delegations to the three-year rolling plan, and the secretariat would be presenting an updated, simplified version of the plan to the Working Party in December 1998. This would provide an occasion to indicate priorities. With respect to the development dividend account, the results of the evaluation of the Trade Point Programme would be known before a decision was taken on the attribution of these funds by the General Assembly.

391. He also noted the importance attributed by many delegations to the training and capacity-building activities of UNCTAD and reaffirmed the secretariat's intention to strengthen these activities. Finally, with regard to the reflection of beneficiaries' views in the secretariat's annual report, every project included three parties, namely the beneficiaries, the donors and the secretariat. An independent evaluation therefore represented the most objective view of the real impact of a project.

Action by the Board

392. At its 899th plenary meeting, on 16 October 1998, the Board, in the light of the report by the Chairman of the Working Party and the statements made, took note of the agreed conclusions of the Working Party (TD/B/WP/L.84) and adopted the draft decision recommended therein. (For the text of decision 455 (XLV), see TD/B/45/13(Vol.I).)

Progress report on UNCTAD's assistance to the Palestinian people

393. For its consideration of this subitem, the Board had before it the following documentation:

> "Technical cooperation activities: Report on UNCTAD's assistance to the Palestinian people - Progress report, October 1997 - September 1998: prepared by the UNCTAD secretariat" (TD/B/45/CRP.1).

394. The **Chief, Inter-Agency Affairs and Technical Cooperation**, introducing the progress report, said that particular attention was focused on operational activities that had been launched in seven fully or partially funded projects and proposed operational activities in five other project areas which remained unfunded. The secretariat would pursue its efforts to mobilize extrabudgetary resources from UNDP, while the support of bilateral donors, including members of UNCTAD, would also be sought. Successful implementation of the activities in question would further develop UNCTAD's contribution to peace and development in the region. Finally, he welcomed the fact that partners in the field, both in the Palestinian Authority and in the family of United Nations organizations, continued to turn to UNCTAD for assistance, thus recognizing the role UNCTAD had played in the past and the concrete assistance it could provide in the future.

395. The observer for **Palestine** said that, though the progress report did not discuss the economic situation in the occupied territory, important analytical studies had been published in the course of the year by the UNCTAD secretariat. He commended the secretariat in particular for its study on the Palestinian economy and the prospects for regional cooperation, which Palestinian decision-makers had found to contain constructive recommendations for future economic and trade policies.

396. He greatly appreciated UNCTAD's efforts to provide concrete support, through its technical cooperation activities, in respect of building Palestinian capacities and strengthening the institutions of the Palestinian National Authority in order to reconstruct and develop Palestine after three decades of Israeli occupation. It was imperative that these activities be sustained and intensified through the provision of the necessary financial resources. He called upon the Secretary-General of UNCTAD to deploy all the resources at his disposal to mobilize the necessary extrabudgetary funds for this purpose through the Consultative Group of donors.

397. He noted that the post of Chief of the Special Economic Unit was still vacant, which meant that the General Assembly resolution on the matter had not been implemented, despite the Secretary-General's repeated assurances and notwithstanding several letters from Palestine on this matter. The appointment of the special coordinator, as called for by the General Assembly resolution, was necessary as soon as possible to ensure continued delivery of concrete assistance

to the Palestinian people in this period preceding independence and the building of the institutions and policies of the forthcoming Palestinian state.

398. The representative of **Morocco**, speaking on behalf of the **Group of Arab Countries**, congratulated the secretariat for its progress report and for its continued commitment to the Palestinian people. The Arab countries had always attached great importance to UNCTAD's operational technical assistance for the Palestinian people and its analytical work on prospects for the development of the Palestinian economy. The fact that these two types of activity were being undertaken simultaneously reinforced their quality and impact. The analytical work should be strengthened with a view to providing a serious basis for operational activities and policy advice for the Palestinian Authority. UNCTAD's Mid-term Review had recently underlined that assistance to the Palestinian people should have a direct economic impact, and he encouraged the secretariat to reinforce its internal coordination and field presence.

399. It was a matter of concern that the secretariat had been able to secure only 45 per cent of the financial resources needed to implement its proposed projects. The bulk of funding to date had come from UNDP rather than from bilateral sources, and the Arab Countries hoped that further resources could be mobilized to allow UNCTAD to fully implement its proposed projects.

400. General Assembly resolution 52/220 had decided that UNCTAD's programme of assistance to the Palestinian people should continue to be carried out by a special coordinator and another member of the secretariat, but the progress report indicated that it has not been possible to implement the resolution in the light of budgetary constraints. The Arab Countries were extremely concerned by this situation and hoped that a solution would be found.

401. The spokesperson for the **African Group** (Tunisia) welcomed the increasing emphasis in UNCTAD's assistance to the Palestinian people on concrete operational activities, including close coordination with the Palestinian Authority and the private sector. This action-oriented, demand-driven and associative approach had prompted extrabudgetary funding amounting to $550,000 for the current biennium. She thanked donors for their support and appealed for additional contributions.

402. As for staff needs, she was concerned that secretariat resources did not match the increasing demands being made on it in this area. The Special Economic Unit had been reduced to only one officer, whereas General Assembly resolution 52/220 clearly stipulated that work should be carried out by a special coordinator at the P.5 level and a staff member at the P.4 level. The Secretary-General of UNCTAD was therefore invited to honour his commitment to maintain the Unit at its required level.

403. The spokesperson for the **Asian Group and China** (Indonesia) said that technical assistance was of paramount importance in helping a country to develop its capacity and build its institutions. She expressed appreciation to the Secretary-General of UNCTAD for providing much-needed technical assistance to the Palestinian people and to UNDP, UNITAR and the Government of Italy for supporting that technical assistance in a process that called for maximum international attention and goodwill. She urged donors and UNCTAD to lend their full support to those projects which still awaited funding and which should be commenced without further delay.

404. The continued vacancy of the post of special coordinator for assistance to the Palestinian people was preventing prompt and efficient implementation of projects, and her Group urged that the post be filled as soon as possible.

405. The representative of **Pakistan** said it was heartening to note the increasing support of the international community for UNCTAD's programme of assistance to the Palestinian people. More needed to be done given the difficult circumstances facing the Palestinian people and the Palestinian Authority. The secretariat's progress report reminded all of the tremendous development challenge facing the Palestinian people. Funds allocated to projects should be carefully approximated to needs, and there should also be coherence between projects so as to ensure their optimal impact. The institutional capacities in the secretariat to support this programme should be strengthened, and the post of special coordinator should be filled.

406. The representative of **Egypt** said that UNCTAD's technical assistance activities in support of the Palestinian private sector and the Palestinian Authority required constant support, so as to achieve their development objectives in the field and to assist the Palestinian people in overcoming the challenges still facing them. The continuing cooperation of the Palestinian Authority with UNCTAD and the voluntary contributions already made to these activities pointed to their vitality and effectiveness. However, only 45 per cent of the funds needed for UNCTAD's projects had so far been secured, and he called upon the secretariat to undertake all possible efforts to mobilize these resources; he hoped that the donor countries would contribute.

407. UNCTAD's Special Economic Unit for the Palestinian people still lacked its special coordinator, despite General Assembly resolution 52/220, which called for the appointment of the coordinator. He hoped the resolution would be implemented as soon as possible, and he requested that the Board be kept informed at the monthly consultations or at any executive session.

408. The representative of **Italy**, referring to the statement of Morocco and Italy's contribution to one of UNCTAD's projects of assistance to the Palestinian people, pointed out that, in addition to such direct bilateral funding, it should be remembered that much of UNDP's financing was itself from bilateral donors.

409. The representative of **Cuba** welcomed the progress report on technical assistance to the Palestinian people, which would contribute to the reconstruction of the Palestinian economy. The appointment of the special coordinator for the programme was long over-due.

410. The representative of **Israel** congratulated the secretariat on its professional and constructive progress report. Israel supported UNCTAD technical assistance to the Palestinian people and considered that it had a beneficial effect on the peace process in general. While important talks were currently taking place on that process in the United States, UNCTAD was making its own efforts for the benefit of the peace process. Israel especially welcomed the orientation of UNCTAD's projects, such as the Nablus Industrial Estate and the EMPRETEC projects mentioned in the report. Activities that could contribute to job creation and strengthen the Palestinian private sector were of great value.

411. He noted that 45 per cent of the funds required for UNCTAD's projects had been secured to date. For its part, the Government of Israel was willing to provide advisory services and training to the Palestinian Authority, and it was ready to do so in full cooperation with the UNCTAD secretariat.

Action by the Board

412. At its 898th plenary meeting, on 14 October 1998, the Board took note of the progress report on UNCTAD's assistance to the Palestinian people (TD/B/45/CRP.1).

Chapter VI

OTHER MATTERS IN THE FIELD OF TRADE AND DEVELOPMENT: PROGRESSIVE DEVELOPMENT OF THE LAW OF INTERNATIONAL TRADE: THIRTY-FIRST ANNUAL REPORT OF THE UNITED NATIONS COMMISSION ON INTERNATIONAL TRADE LAW

(Agenda item 8)

413. For its consideration of this item, the Board had before it the following documentation:

"Report of the United Nations Commission on International Trade Law on the work of its thirty-first session" (A/53/17);

"Note by the UNCTAD secretariat" (TD/B/45/7).

414. The representative of the **United Nations Commission on International Trade Law** (UNCITRAL), after describing the functions and the main areas of work of the Commission, drew attention to the conventions, model laws and legal guides that it had prepared. He briefly reviewed the work of the Commission at its most recent session, in particular in the field of electronic commerce and on a model law and uniform rules on digital signatures. Finally, he called for continued cooperation between UNCITRAL and UNCTAD.

415. The **Senior Legal Officer of UNCTAD**, describing cooperation at the secretariat level between UNCTAD and UNCITRAL in recent months, said that the UNCTAD secretariat was following closely the work of UNCITRAL as regards the law of electronic commerce and was promoting this work in its own activities. The UNCTAD secretariat was assisting the UNCITRAL secretariat in its work on receivables financing. The secretariats were also cooperating in the preparation of two courses on electronic commerce and in the organization of a seminar on electronic commerce scheduled to be held in Tunis in October 1998. He noted that the text of a number of the conventions, model laws and legal guides prepared by UNCITRAL had been made available to interested participants in the session of the Board.

416. The spokesperson for the **African Group** (Mauritius) said that consideration of the annual report of UNCITRAL was an important item on the agenda of the Board. UNCITRAL's work on cross-border insolvencies, assignment of receivables and commercial arbitration was very relevant to the Board's high-level segment discussion of the financial crisis and its impact on world trade. UNCITRAL's work on BOT (build, operate and transfer) projects and on the legal aspects of electronic commerce was significant to a strategy for attracting FDI and for preparing the ground for electronic trade. He welcomed the cooperation between UNCITRAL and UNCTAD in the field of electronic trade, and he invited them to cooperate also in areas such as investment, BOT, receivables, and the settlement of disputes. Of course, duplication must be avoided. He appealed for the participation of a greater number of nationals from developing countries in the internship programme of UNCITRAL.

417. The representative of **Uruguay** noted with satisfaction the progress made by UNCITRAL in the progressive harmonization and unification of international trade law. He emphasized the importance of providing information by all means

available, including the Website of the UNCITRAL secretariat on the Internet, on court decisions and arbitral awards relating to the legal instruments prepared under the auspices of UNCITRAL. He stressed the importance for his delegation of training and technical assistance activities undertaken by UNCITRAL in Latin America and the Caribbean in 1997 and expressed interest in receiving additional information about the results/evaluation of the seminars and briefing missions for government officials, as well as future developments in this area. He requested information about the countries which had enacted national legislation in the field of electronic commerce following the provisions of the UNCITRAL Model Law on Electronic Commerce. He emphasized the importance of strengthening the existing cooperative arrangements between UNCTAD and UNCITRAL in the field of electronic commerce.

418. The representative of **France** enquired whether UNCITRAL would be represented at the Partners for Development Summit scheduled to be held in Lyon in November 1998, as this presence would be most welcome in connection with discussions on electronic commerce.

419. The representative of **UNCITRAL** replied that his institution would be represented at the Summit.

420. The representative of **Chile** said that he attached great importance to work on electronic commerce, as reflected in paragraphs 207-221 of the UNCITRAL report. Electronic commerce had developed rapidly and was being discussed in several international organizations. It represented a new means of conducting commercial transactions and a modern way of offering, in digital form, goods and services which until now had had to be proposed in a physical manner. The rapid development of electronic commerce had raised a number of uncertainties, problems and legitimate concerns. His Government had supported the analysis carried out in several international organizations of the consequences of electronic trade, in particular for developing countries. He noted with satisfaction the cooperation between UNCTAD and UNCITRAL in the field of electronic commerce and he welcomed cooperation at the secretariat level in other areas of international trade. UNCITRAL, UNCTAD, WTO and WIPO, working in their respective fields of competence, should coordinate their work further and avoid duplication.

421. The representative of **Japan**, referring to paragraph 268 of the UNCITRAL report, said that, as regards electronic commerce, the work of UNCTAD was analytical in nature and did not extend to rule-making. He further enquired about the nature of proposed cooperation as regards dispute settlement in the field of trade and investment. As regards the latter, he urged UNCTAD to cooperate with WTO and other competent organizations.

422. The **Senior Legal Officer of UNCTAD** said that UNCTAD and UNCITRAL were cooperating in analysis and training in the field of electronic commerce. Cooperation in the field of settlement of disputes as regards investment and trade, which he had proposed at this year's session of UNCITRAL, concerned technical assistance and training which should be carried out in cooperation with other competent organizations.

Action by the Board

423. At its 899th plenary meeting, on 16 October 1998, the Trade and Development Board took note of the report of the United Nations Commission on International Trade Law (UNCITRAL) on the work of its thirty-first session and decided to invite a representative of UNCITRAL to present the report of the Commission to the regular session of the Board in 1999.

Chapter VII

STATEMENTS MADE AT THE CLOSING PLENARY MEETING ON 23 OCTOBER 1998

424. The representative of **France** said that the city of Lyon and the French authorities were pleased that the Partners for Development summit was being hosted in Lyon, and the city was ready to welcome participants. The summit would be of great interest not only because of the topics to be discussed, which would include micro finance, electronic commerce and investment, but also because of the expected high level of participation from both the public and the private sector. The outcome of the summit would be not a resolution but a series of practical partnerships. The summit would represent an important milestone not only for UNCTAD but also for development.

425. The **Secretary-General of UNCTAD** thanked the Mayor of Lyon and the Government of France for their contribution to the hosting of the summit, which would be organized in Lyon at no additional cost to UNCTAD. A large number of participants were expected, including high-level public and private sector actors, and he was confident that the summit would mark a new phase in the evolving methods of work of international organizations. It should in particular promote the further integration of civil society and the private sector in UNCTAD's work.

Annex

ATTENDANCE*

1. The following States members of UNCTAD, members of the Board, were represented at the session:

Algeria
Angola
Argentina
Austria
Azerbaijan
Bangladesh
Barbados
Belarus
Belgium
Bhutan
Brazil
Bulgaria
Burundi
Cameroon
Canada
Chile
China
Colombia
Costa Rica
Côte d'Ivoire
Croatia
Cuba
Czech Republic
Democratic People's Republic of Korea
Democratic Republic of the Congo
Denmark
Dominican Republic
Ecuador
Egypt
El Salvador
Ethiopia
Finland
France
Gabon
Germany
Ghana
Greece
Guatemala
Guinea
Haiti
Honduras
India
Indonesia
Iran (Islamic Republic of)
Iraq
Ireland
Israel
Italy
Jamaica
Japan
Jordan
Kenya
Kuwait
Latvia
Lebanon
Libyan Arab Jamahiriya
Luxembourg
Madagascar
Malaysia
Malta
Mauritania
Mauritius
Mexico
Morocco
Myanmar
Nepal
Netherlands
New Zealand
Nicaragua
Nigeria
Norway
Oman
Pakistan
Panama
Paraguay
Peru
Philippines
Poland
Portugal
Republic of Korea
Republic of Moldova
Romania
Russian Federation
Senegal
Singapore
Slovakia

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* For the list of participants, see TD/B/45/INF.3.

South Africa
Spain
Sri Lanka
Sudan
Sweden
Switzerland
Thailand
The Former Yugoslav Republic of Macedonia
Trinidad and Tobago
Tunisia
Turkey
Uganda
Ukraine
United Arab Emirates
United Kingdom of Great Britain and Northern Ireland
United Republic of Tanzania
United States of America
Uruguay
Venezuela
Viet Nam
Yemen
Zambia
Zimbabwe

2. The following other States members of UNCTAD, not members of the Board, were represented as observers at the session:

Brunei Darussalam
Holy See
Kazakhstan
Lesotho
Rwanda
Palestine

3. The following intergovernmental organizations were represented at the session:

Agency for Cultural and Technical Co-operation
Arab Labour Organization
Common Fund for Commodities
European Community
International Textiles and Clothing Bureau
League of Arab States
Organisation for Economic Co-operation and Development
Organization of African Unity
Organization of the Islamic Conference

4. The following specialized agencies and related organization were represented at the session:

International Labour Organization
Food and Agriculture Organization of the United Nations
United Nations Educational, Scientific and Cultural Organization
World Bank
International Monetary Fund
International Telecommunication Union
United Nations Industrial Development Organization
World Trade Organization

5. The United Nations Commission on International Trade Law and the United Nations Development Programme were represented at the session. The International Trade Centre UNCTAD/WTO was also represented at the session.

6. The following non-governmental organizations were represented at the session:

General Category

International Chamber of Commerce
International Confederation of Free Trade Unions
International South Group Network
Third World Network
World Federation of United Nations Associations
World Vision International

PANELLISTS

Financial Crises: Causes, Management and Prevention

Ms. Stephanie Griffith-Jones, Institute of Development Studies, University of Sussex
Mr. Will Hutton, Editor, The Observer, London
Mr. Martin Mayer, Brookings Institute, Washington, D.C.
Mr. Yung Chul Park, Former President, Korea Institute of Finance, Seoul

The Ninth Raúl Prebisch Lecture

Mr. Joseph Stiglitz, Senior Vice-President, World Bank, Washington, D.C.

UNCTAD's contribution to the implementation of United Nations New Agenda for the Development of Africa in the 1990s: Prospects for agriculture, trade and industrialization

Mr. Peter Gibbon, Centre for Development Research, Copenhagen
Mr. Nguyuru H.I. Lipumba, Professor of Economics, Dar-es-Salaam University
Mr. Thandika Mkandawire, Director, United Nations Research Institute for Social Development (UNRISD)

High-Level Segment

The Impact of Financial Crisis on Trade, Investment and Development: Regional Perspectives

Mr. Hazam El-Beblawi, Executive Secretary, Economic and Social Commission for Western Asia (ESCWA)
Dato' Wan Malek Ibrahim, Managing Director, Malaysia Airlines
Ms. Dewi Motik Pramono, Vice President, Indonesian Chamber of Commerce and Industry (KADIN)
Ms. Montigan Lovichit, CEO, T. Shinawatra Thai Silk
Mr. Adrianus Mooy, Executive Secretary, Economic and Social Commission for Asia and the Pacific (ESCAP)
Mr. Stephen Pursey, Chief Economist, International Confederation of Free Trade Unions (ICFTU)

The ripple effect and lessons to be learnt from the crisis

Mr. Ali Gadir Ali, Director, Economic and Social Policy Division, Economic Commission for Africa (ECA)
Mr. Yves Berthelot, Executive Secretary, Economic Commission for Europe (ECE)
Ms. Joyce Cornell, Managing Director, Scudder Kemper Investments Inc. (via video-link)
Mr. André R. van Heemstra, President, East Asia Pacific Group, Unilever
Mr. Robert D. Hormats, Vice Chairman, Goldman Sachs International (via video-link)
Mr. José Antonio Ocampo, Executive Secretary, Economic Commission for Latin America and the Caribbean (ECLAC)

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